ANNUAL REPORT 2004

Bow Valley Energy Ltd.

CORPORATE PROFILE

BOW VALLEY ENERGY LTD. is an international oil and natural gas exploration and production company that operates primarily in the U.K. North Sea and western Canada. We are engaged in full-cycle exploration and production, including: land purchase; seismic acquisition and interpretation; drilling; facilities and pipeline construction; and the production of oil and natural gas. Our strategy balances higher-risk exploration with lower-risk development and the acquisition of producing properties. We are committed to pursuing this strategy while maintaining a strong financial position.

Bow Valley's common shares trade on the Toronto Stock Exchange under the symbol BVX.

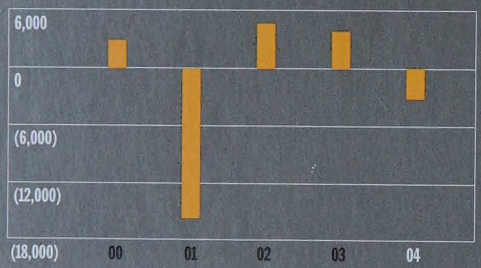
ANNUAL MEETING

Bow Valley Energy Ltd. is pleased to invite its shareholders and other interested parties to attend its Annual General and Special Meeting to be held at the Metropolitan Centre, 333 – 4 Avenue SW, Calgary, Alberta, Canada on Wednesday, May 18, 2005, commencing at 2:00 pm. For those shareholders unable to attend the meeting, please complete and return your Form of Proxy.

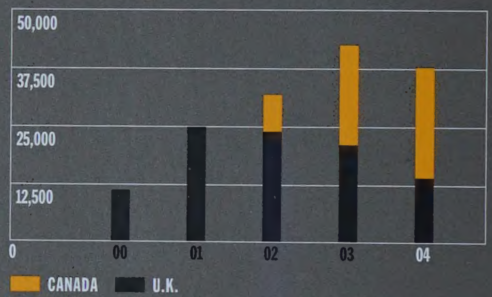
CLEAR ROAD AHEAD BOW VALLEY ENERGY HAS A CLEAR AND DELIBERATE STRATEGY TO BE AN INTERNATIONAL, INTERMEDIATE-SIZED, EXPLORATION AND PRODUCTION COMPANY THAT CREATES SUSTAINABLE SHAREHOLDER VALUE BY BUILDING ON THE STRENGTHS OF ITS HIGHLY SKILLED TECHNICAL TEAM AND OUR DIVERSIFIED ASSET BASE IN CANADA AND THE UNITED KINGDOM. THE SUCCESS WE EXPERIENCED IN 2004, THE SOLID FOUNDATION ON WHICH OUR ASSETS ARE BUILT AND THE PROGRESS MADE TOWARD DEVELOPING FUTURE PROJECTS CLEARLY PAVES THE ROAD TO PURSUE CONTINUED GROWTH IN 2005.

STATISTICAL REVIEW

Net Earnings ($000s)

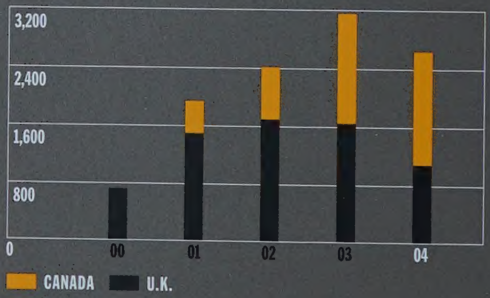


Revenue ($000s)



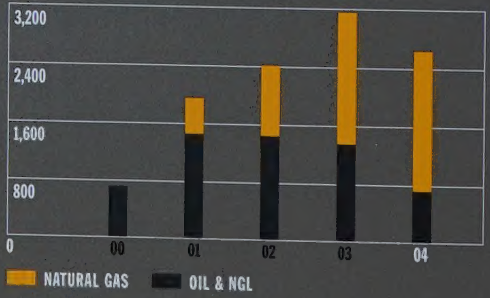
Funds Flow from Operations ($000s)

Sales Volumes (boe/d)



Bow Valley Energy Ltd.
NPVBT$_{10}$ ($millions, forecast prices)

Sales Volumes (boe/d)



HIGHLIGHTS

($000s, except per share amounts)	2004	2003	% Change
FINANCIAL			
Revenue	**37,419**	42,574	(12)
Funds flow	**14,741**	23,633	(38)
Basic and diluted per share *($/share)*	**0.23**	0.38	(39)
Earnings (loss)	**(3,201)**	3,849	(183)
Basic and diluted per share *($/share)*	**(0.05)**	0.06	(183)
Working capital (deficiency)	**(16,022)**	(2,829)	466
Shares *(000s)*			
Basic	**64,642**	64,510	–
Weighted average			
Basic	**64,578**	62,019	4
Diluted	**64,920**	62,937	3
OPERATING			
Sales volumes (average)			
Crude oil and NGL *(bbl/d)*	**697**	1,328	(48)
Natural gas *(mmcf/d)*	**11.6**	11.1	5
Oil equivalent *(boe/d)*	**2,643**	3,177	(17)
Prices			
Crude oil and NGL *($/bbl)*	**44.04**	37.29	18
Natural gas *($/mcf)*	**5.94**	5.85	2
Oil equivalent *($/boe)*	**37.98**	36.01	5
Reserves			
Proved			
Crude oil and NGL *(mbbl)*	**865**	1,023	(15)
Natural gas *(bcf)*	**19.2**	15.4	25
Oil equivalent *(mboe)*	**4,067**	3,590	13
Proved and probable			
Crude oil and NGL *(mbbl)*	**11,896**	12,897	(8)
Natural gas *(bcf)*	**38.1**	33.5	14
Oil equivalent *(mboe)*	**18,246**	18,480	(1)
Undeveloped land *(net acres – 000)*			
U.K.	**41,600**	40,505	3
Canada	**50,796**	45,171	12

THE BOW VALLEY EXECUTIVE TEAM

ROBERT G. MOFFAT
President and Chief Executive Officer

A long-term vision and strong game plan are critical to achieving our goals. It is incumbent upon management to share the vision, execute the plan and instill confidence in other members of the team, as well as with investors and other stakeholders.

Bow Valley must be efficient in everything it does. We must remain focused on the tasks at hand, while keeping an eye on the long-term plan. We must remain nimble in order to capitalize on opportunities as they become available.

MATTHEW L. JANISCH
Vice President, Finance and Chief Financial Officer

For a company such as Bow Valley with its aggressive growth plans, access to capital is a key success factor. This capital may not always be new equity. At times, equity can be an expensive source of capital, and is not always available when it is needed. Therefore, maintaining a strong balance sheet, with access to all forms of capital, provides Bow Valley with the fuel for the road ahead.

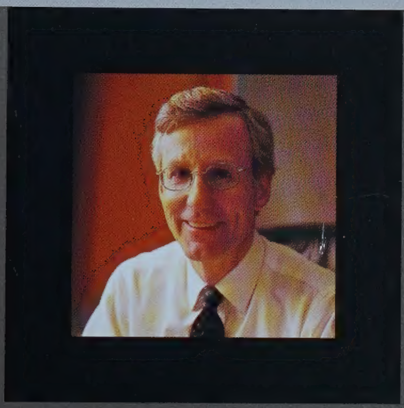
THOMAS J. RUISSEN
Vice President, Exploration

The exploration team and its ability to develop a large inventory of drilling prospects is critical. We apply a portfolio approach, using a risk reward matrix, to guide our capital spending and growth projections.

Our awareness of strengths, weaknesses, opportunities and threats allows us to focus our efforts accordingly. This clarity and appropriate application of resources allows us to provide a guide to future success that is flexible enough to withstand or circumvent bumps along the road, yet focused enough to provide the most efficient and economic returns.

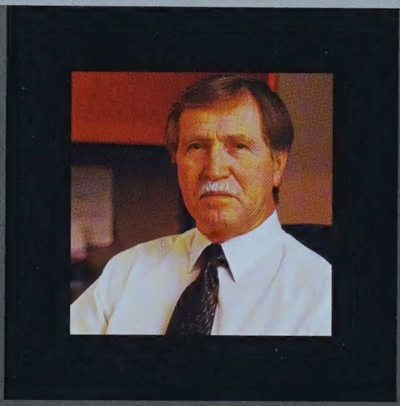
MEMBERS OF BOW VALLEY'S EXECUTIVE TEAM share their perspective on the corporate strategy and vision for the future.

JOHN W. ESSEX
Vice President, Operations



Bow Valley seeks the right combination of experience, capability and know-how among the professionals who comprise our team. We have a clear view of the challenges and opportunities before us. Progress is not always easy in an environment of rising costs and shortages of equipment and personnel in the field. Our focus on cost control, forward planning and key data acquisition and analysis allows us to react quickly and decisively. Building and maintaining strong relationships with all stakeholders affected by our projects is critical to ensuring all projects meet or exceed everyone's expectations.

DAVID A. FLEMING
Vice President, International



Working internationally entails many different risks and challenges versus the domestic operations and requires a patient, diligent approach because the time line to accomplish objectives is longer. Bow Valley recognizes these challenges and is building a skill set to become a dominant participant in a changing international landscape. First, the Company is building a production base from existing discoveries with the use of existing infrastructure and new technology. Second, the strategy will shift to include acquisition and exploration opportunities.
The international effort is based on the ability to realize value from opportunities that are less material to larger competitors, but still meaningful to Bow Valley.

NICK J. FAIRBROTHER
Director, International Business Development

I believe it is important to be "on-the-ground" to pursue opportunities in the U.K. It is critical that we are in the middle of the information flow to properly access opportunities. While the recent high commodity prices have in fact made it more difficult to complete a transaction, we continue to pursue possibilities. We evaluate many projects before determining those most appropriate to pursue. We expect that we will bid on several of these before making a successful transaction.

Our balanced strategy remains our strength. Our portfolio is balanced between natural gas and oil; Canada and the U.K.; and high-risk exploration and lower-risk development opportunities. Management has a clear vision and a well-developed strategy to pursue and achieve our growth targets.

LETTER TO SHAREHOLDERS

I BELIEVE THAT THE ROAD TO SUCCESS is more assured if a company has set a defined course and established firm goals. At Bow Valley we have developed a detailed business strategy – our corporate "road map" – that we believe will enable the Company to achieve our future goals. We have deliberately set a course of pursuing a dual strategy, balanced between international and domestic exploration and production. The international effort is currently focused on establishing an oil-weighted production base in the U.K. sector of the North Sea, while the domestic effort is focused on finding natural gas in western Canada. Our domestic and international efforts are balanced between exploration, development and the acquisition of oil and natural gas reserves. The good news, I am proud to report, is that the rewards are beginning to appear.

In three years, Bow Valley has successfully established a diversified production base of approximately 2,000 boe/d in western Canada. The Company has built an exploration team that is actively adding to the Company's prospect inventory, which now stands at approximately 50 drilling opportunities. This inventory continues to expand and is the foundation of the Company's continued growth in western Canada. Our strategy of pursuing natural gas in a focused effort has resulted in an asset base that is 90% weighted to natural gas and concentrated around five core properties. In addition, approximately 90% of the Canadian field activity is operated by Bow Valley which also helps the Company to maintain control over the timing, costs and nature of its operations.

Our Canadian finding and development cost performance improved dramatically in 2004. The Company invested approximately $22 million in Canadian operations, which resulted in proved plus probable reserve additions of approximately 2.1 million barrels of oil equivalent representing a finding and development cost that is in the top quartile of industry performance and represents a production replacement ratio of 359%. Continuing on this positive momentum, the Company is budgeting $25 million for western Canadian expenditures during 2005 which should provide for the drilling of about 30 wells. The capital expenditures will be financed from Canadian cash flow and existing lines of credit. Management believes that it can maintain its improved finding and development costs and is targeting 50% growth in western Canadian production by year-end 2005.

In the United Kingdom Continental Shelf (UKCS), Bow Valley has also been successful over the past several years. A current production base of 1,800 boe/d has been established from a 14.29% interest in the Kyle field. The Company continues to evaluate ways to extend the economic life of this field by improving the commercial terms and analyzing the geological potential to drill additional wells into the field. One result of this evaluation is the decision to re-route Kyle production from the Curlew Floating Production, Storage and Offloading (FPSO) vessel to an alternative facility located at the Banff field. This work will be complete by September 2005, at which time the

operating costs for Kyle should drop by over 50%, leading to improved netbacks and extending field life.

In addition to the Kyle field, Bow Valley has an interest in five undeveloped discoveries at Blane, Enoch, Chestnut, Ettrick and J1. The partnership group in each of these fields is proactive in advancing the development of these projects. It is expected that a Field Development Plan for each of Blane and Enoch and possibly Chestnut will be submitted to the government for their approval in early 2005. Assuming government sanction, development of these fields will advance, with first oil production forecast to occur in the second half of 2006. Reaching first production from these fields will be a significant achievement. Blane and Enoch were first discovered in 1989 and 1991, respectively, but their development has been delayed because of trans-median border issues between the U.K. and Norwegian governments, as well as a lack of aligned interest amongst the partnership groups. The renewed interest in these fields is illustrative of the changing environment occurring in the UKCS. Established major oil companies are de-emphasizing their activities in the North Sea and redirecting their cash flow elsewhere, while a new generation of companies, such as Bow Valley, accelerate the development of smaller fields. The net production additions from these development projects should more than double Bow Valley's current U.K. production within 18 months. The 2005 capital budget for the U.K. is yet to be finalized, pending a final decision to develop Blane, Enoch and Chestnut. The Company is in discussions with its U.K. bankers regarding debt financing for the Company's share of these projects which management believes will be forthcoming.

Bow Valley is also very interested in the remaining exploration potential of the UKCS. We are mapping and identifying new exploration prospects that should enable us to become an active explorer in the UKCS once the increased cash flow from the developed properties is realized. One of these prospects in the Ettrick area could be drilled as early as the third quarter of 2005. Bow Valley has a 12% working interest in the property.

The combined growth from Canada and the U.K. will help Bow Valley establish itself as a strong, intermediate-sized Company with a balanced and diversified production base. The increasing cash flow from operations will be prudently reinvested in a portfolio of development, exploration and acquisition opportunities worldwide that will provide corporate growth for years to come.

OUTLOOK

There is not a country or person that is immune from the global influence of oil. Today, one of the biggest paradigm shifts in the history of oil is occurring, as world oil production is peaking and oil consumption continues to grow at a healthy pace. No longer is it feasible to consider other sources of oil as being readily available, and it appears inevitable that oil prices will remain strong. Bow Valley is well positioned to benefit from higher oil prices. The Company owns an interest in five discoveries that have been appraised and are now awaiting field development. The Company is forecasting significant growth for the next two to three years, as development of these discoveries occurs. There is little exploration risk to this profile and the economics of developing these fields are becoming even

more attractive with the rising price of oil. In addition, the Company has an exploration team who have the experience to find new oil and natural gas discoveries. The Company's exploration prospect inventory is expanding, and an active drilling program will be pursued in 2005. Bow Valley enjoys a future that is rich with opportunity.

ACKNOWLEDGEMENTS

Bow Valley's accomplishments are the result of the collective effort of its employees, consultants, management and directors. It is with great admiration that I look upon such a talented group of people. This year's annual report is built around a theme of the 'clear road ahead' because I am confident that the road to success will be ours. I thank everyone for their contribution to the Company's many accomplishments to date and toward pursuing even greater success in the future.

ROBERT G. MOFFAT

President and Chief Executive Officer

February 25, 2005

After an unsustainable surge in production volumes two years ago due to a unique situation, Bow Valley re-routed its exploration program in western Canada in 2004. Over the year we established an inventory of approximately 50 drilling locations and increased production from 900 boe/d to over 2,000 boe/d. With a more diverse production base today we believe it's time to resume speed.

WESTERN CANADIAN OPERATIONS

THE RISE OF INCOME TRUSTS IN CANADA through the late 1990s has led to a significant change in the Canadian oil and natural gas landscape. Not only have these trusts replaced the mid-tier oil and gas companies, the way they do business has significantly altered the competitive environment. The trusts have a structural tax advantage which, combined with the low interest rate environment, has afforded them a cost of capital advantage over conventional oil and natural gas companies when evaluating acquisitions. Trusts have been acquisition oriented, which has affected the ability of companies like Bow Valley to be competitive in bidding for Canadian oil and natural gas producing assets.

As these Trusts have been largely acquisitive in nature, and have only recently increased their development drilling activities, a niche opportunity has been created for small, exploration oriented companies like Bow Valley. The niche opportunity is in pursuing a strategy of full-cycle growth through the drill bit.

In late 2003, Bow Valley put in place a new exploration and development plan in Canada, taking the Company in a new direction towards profitable growth. The new plan called for a more managed approach to risk, emphasizing low cost reserve additions. During 2004, we hired new professional staff and improved the quality of our asset base by adding new areas such as Hamelin Creek, where the Company participated in a 22 bcf new pool discovery (0.5 mmboe net), and selling assets at Stettler, which represented 1% of boe production but accounted for 7% of Canadian operating costs. The Company also placed a greater emphasis on forward planning, and developed an inventory of over 50 drilling prospects, which allows the Company to continue to high grade its opportunities. This forward planning also allowed the Company to contract a drilling rig for the 2004/05 winter drilling season. The Company entered into this contract to ensure a continuous drilling program during a period when high levels of industry activity meant resources were scarce and many companies were unable to complete their winter drilling programs.

This new plan and direction resulted in improved risk management, adding reserves at very attractive costs and replacing 2004 production by 359%.

We will continue to balance risk and manage assets to control and reduce operating and capital costs, and maintain strong reserves and production growth, resulting in added value for shareholders.

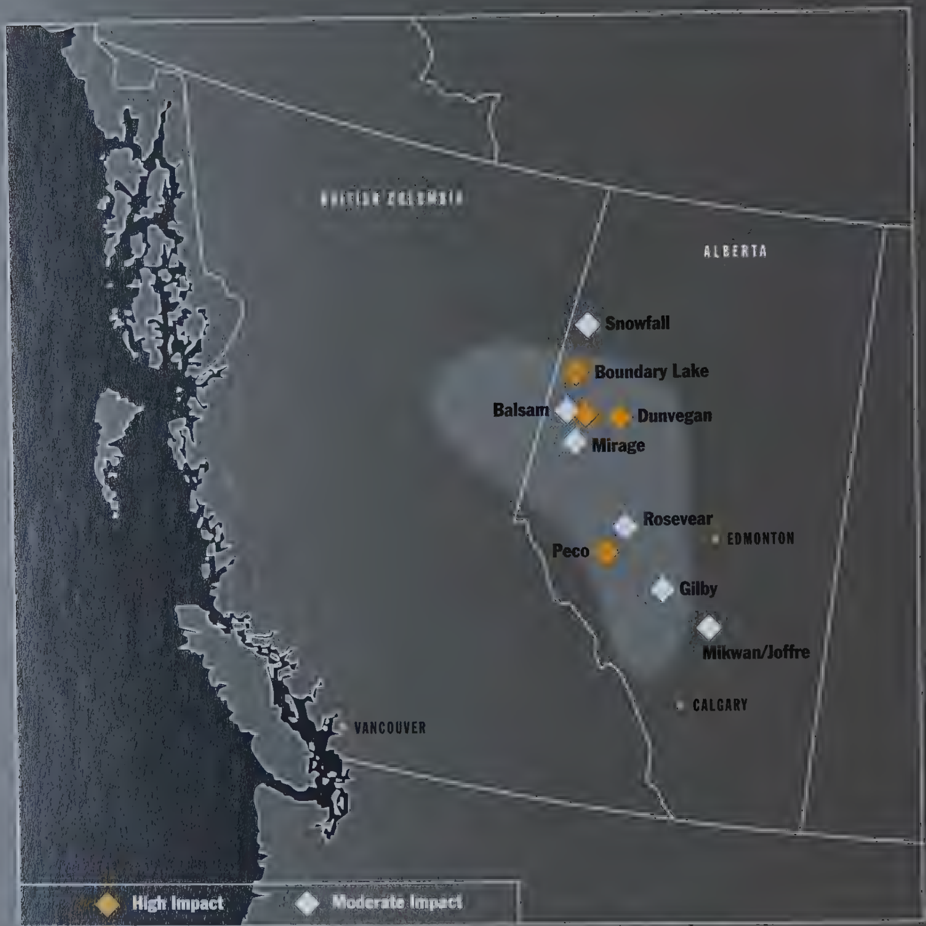
OVERALL RESULTS

In 2004, Bow Valley showed a significant improvement in drilling success and reserve replacement costs. The Company drilled 26 (14.9 net) wells, resulting in 19 (9.7 net) natural gas wells, two (1.7 net) oil wells, three (1.5 net) suspended natural gas wells and two (2.0 net) abandoned wells, for a success rate of 81% (77% net). One location was farmed out to an industry partner resulting in a dry hole at no cost to Bow Valley.

We continue to diversify our asset base in Canada, thus improving the Company's risk profile. The drilling success outlined above yielded a more diversified portfolio of producing assets in new areas and producing horizons.

Production reached approximately 2,000 boe/d in January 2005, representing a one-third increase over January 2004.

WESTERN CANADA



WESTERN CANADA FIELD SUMMARIES

MIRAGE

- Four new step-out development wells expanding on Bow Valley's 2003 Dunvegan discovery, resulted in increased net production additions of approximately 700 mcf/d
- Added compression to optimize competitive drainage
- Additional opportunities will be pursued in 2005

HAMELIN CREEK

- Participated in four wells plus one re-entry, resulting in a new pool discovery
- Significant net reserve and production additions of approximately 2.6 bcf (proved plus probable) and 2,000 mcf/d, respectively
- Bow Valley's single largest production (and reserves) addition in 2004
- This area provides a great template for the multi-zone potential of the Peace River Arch

ROSEVEAR

- Drilled two successful development wells and established a third producing horizon
- Initiated downspacing and commingling efforts in 2004, resulting in increased natural gas production and new exploitation opportunities
- Will continue to be active through 2005/06

GILBY

- Drilled one development well in 2004 with additional drilling being undertaken in 2005
- Pursuing Cretaceous and Jurassic aged targets
- Will continue to pursue additional opportunities in the area

HIGHVALE

- Plans are in place to offset 2004 production declines through recompletion and shallow drilling opportunities

EARRING

- Successful recompletion of 2002 discovery led to addition of liquids-rich natural gas
- Further uphole opportunities being pursued

BALSAM

- Focus in 2004 was on Cretaceous and Triassic exploration and exploitation
- Drilled three wells – two natural gas wells and one oil well
- Added third-party income stream from Company-owned pipeline infrastructure
- Will continue to be active in this area during 2005

CARDIFF

- Successful recompletion and follow-up development drilling in Ellerslie resulted in significant increase in area production

SNOWFALL

- Discovery of natural gas in an established productive zone has resulted in a solid production addition and a new area of exploration potential for Bow Valley

MIKWAN

- Participated in the drilling of one oil well and one natural gas well
- Additional activity planned for the area in 2005

Five discoveries in Bow Valley's U.K. properties are expected to add approximately 7,500 boe/d to its production in the next five years.

In addition, changes to ownership and operatorship in the U.K. North Sea are accelerating the Company's development plans.

The Company is in a good position to lever its balance sheet into a producing property acquisition in the U.K. Management expects to return to high-impact exploration in 2006.

UNITED KINGDOM

SIGNIFICANT INVESTMENTS IN THE U.K. NORTH SEA were made by industry in the 1980s and 1990s when worldwide oil exploration reached unprecedented heights. As a result, today there remains a legacy of assets, including offshore production platforms; pipeline distribution systems; service and supply networks; a knowledgeable work force; and an efficient government regulatory regime. The U.K. production growth was rapid, reaching 2.5 million barrels per day and establishing the North Sea as one of the largest oil producing regions in the world. This North Sea production peaked in 1999 and U.K. production has been in decline since. With the decline in total production, remaining discoveries are trending down in size with lower productivity. New oil and natural gas discoveries are approximately half the size they were 10 years ago. Similarly, exploration has fallen dramatically. In 1990, 200 exploration wells were drilled in the U.K. sector of the North Sea. In 2005, fewer than 50 are expected. The U.K., which was energy self-sufficient, is expected to become a net importer of oil by 2007-8.

Bow Valley is pursuing a niche opportunity in the U.K., where the established major oil companies are redirecting their capital expenditures to other regions of the world that provide billion-barrel opportunities. No longer is the U.K. their priority. According to the U.K. Department of Trade and Industry, estimates of remaining recoverable oil in the U.K. sector of the North Sea are in the range of 28-32 billion barrels of oil equivalent. At present, there are plans to develop only half of the remaining reserves potential. There are approximately 250 undeveloped discoveries in the UKCS, of which 150 are within 10 miles of existing infrastructure. The UKCS has produced approximately 33 billion barrels of oil equivalent, so the remaining potential represents almost an equal amount of oil to that which has been produced to date. The opportunity now in the North Sea is for next generation oil companies to acquire mature producing assets from the majors, exploit the undeveloped fields and explore for the remaining potential. Bow Valley intends to become a dominant force in this developing trend.

This rejuvenation of the North Sea has led to new operators in each of the Company's non-producing assets over the last few years, but mostly during 2004. These new operators have brought a more aggressive development schedule to the fore, with the assets moving forward on an accelerated schedule towards first production, potentially as early as the third quarter of 2006. The increased production, revenue and cash flow from the development properties will be re-directed into a more active exploration program. We intend to participate in three to five exploration wells per year, in the UKCS once the financial resources of the Company can support this level of activity.

In addition to its development and exploration agenda, Bow Valley continues to evaluate and bid on appropriate acquisition opportunities. The Company is committed to doing so with a financial discipline that will ensure any proposed transaction creates value for shareholders.

UNITED KINGDOM

UNITED KINGDOM FIELD SUMMARIES

KYLE

- Worked to improve operating costs and extend field life through two main initiatives:
    1. *Improve production performance:* brought K14 Paleocene sand well back on production at better than expected rates
    2. *Improve terms of commercial contracts:* partner group gave notice of termination of contract to Curlew FPSO and agreed to tie-back remaining Kyle production through the Banff facility in the fourth quarter, 2005. Although this tie-back will result in some facility constraints, the improvement in operating tariffs is expected to more than offset this reduction and extend field life
- Bow Valley is participating in a reservoir simulation study that is expected to identify further drilling opportunities in the field

BLANE

- Field was pre-unitized at an 82/18 split between the U.K. and Norwegian owners, resulting in Bow Valley's working interest being 12.5% in this field
- New operator has moved forward with a draft development plan, which is expected to be approved by partners in early 2005; government approvals expected by mid-year 2005
- Key elements of the plan would lead to projected full life capital costs of C$11.50 per boe and operating costs of approximately C$6.00 per boe. The fiscal regime in the U.K. remains royalty free
- First production is expected in Q3 2006

ENOCH

- U.K. and Norwegian owners are currently negotiating pre-unitization of the field a development plan is expected to be approved by partners in early 2005; with government approvals expected by mid-2005
- Key elements of the plan would lead to projected full life capital costs of less than C$10.00 per boe and operating costs of approximately C$5.00 per boe. The fiscal regime in the U.K. remains royalty free
- First production may be achieved as early as Q3 2006

CHESTNUT

- Evaluating options for field development
- Acceleration of development could lead to first production in late 2006 or early 2007

ETTRICK

- New operator is taking more aggressive stance towards development of this area
- Current plan is tie-back to facilities at Buzzard when that field is past peak production, expected in 2010
- Looking at alternatives to accelerate development. Operator has proposed an exploration well in the area in 2005. Bow Valley expects to participate with a 12% interest

J1

- Field was moved from probable reserves to possible reserves in the 2003 reserve report; improved prices, development at Enoch and possible future exploration activity could see a move back into the probable category as a prelude to development

In 2004, Bow Valley reaffirmed its strategy to continue to participate actively in international opportunities supported by a lower-risk, shorter-term exploration and exploitation program on assets in western Canada. The Company can use its balance sheet to pursue opportunities that could include a more aggressive drilling program in western Canada and acquiring a producing property in the U.K.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) provides details about Bow Valley's full year and fourth quarter 2004 financial results and compares them to the corresponding periods of 2003. In addition, the MD&A outlines the Company's capital program and outlook for 2005. It should be read in conjunction with the consolidated financial statements. Certain statements throughout this report are forward-looking and are based on information currently available. Actual results will vary and the variations may be significant.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to barrels of oil equivalent at six thousand cubic feet to one barrel of oil equivalent (6 mcf = 1 boe). This conversion ratio is the convention used in the oil and natural gas industry and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The use of boe may be misleading, particularly if used in isolation.

All figures are reported in Canadian dollars, unless otherwise stated. Throughout this MD&A we use the term funds flow from operations (cash generated from operating activities before changes in non-cash working capital) which can be found in the statement of cash flows. This term does not have a standardized meaning under generally accepted accounting principles (GAAP) and may not be comparable to other companies. Management believes that funds flow is a useful supplementary measure that may assist investors. The effective date of this MD&A is February 25, 2005.

CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is presented in Note 1 to the consolidated financial statements. In accounting for oil and gas activities, the Company has a choice between two acceptable accounting policies: full cost and successful efforts. Bow Valley follows the full cost method.

CRITICAL ACCOUNTING ESTIMATES

Preparing financial statements in accordance with GAAP requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on our financial statements and financial position. The estimates of proved and probable reserves is critical to many aspects of the Company's financial statements, including net income through the calculation of depletion, the determination of the asset retirement obligation, the application of the ceiling test calculation and the test for impairment of goodwill. Management's judgment of fair value is also critical to the cost centre ceiling test and test for impairment of goodwill. The carrying amount of property, plant and equipment, as well as the amount recorded for depletion, depreciation and accretion (DD&A) can be affected by these judgments. Actual results will differ from those estimated.

2004 OVERVIEW

In 2004, Bow Valley had a successful year in both western Canada and the U.K. The Canadian drilling program added significant shareholder value through the drill bit; Canadian proved plus probable reserves were up 80% year-over-year and the value of those reserves was up 142% (proved plus probable, PV10, before tax). In the U.K., a new operator in 2004 has progressed two of Bow Valley's fields toward development on an accelerated schedule to first production. As a result of this accelerated schedule and higher expected oil prices, the present value of these reserves increased by 97% (proved plus probable, PV10, before tax) year-over-year. In addition, the Company took steps to improve the cost structure of its Kyle producing field which will continue to reduce operating costs, possibly by over 50% from peak levels in 2004, when a new tariff agreement becomes effective September 2005. The Company has significant undrawn bank lines.

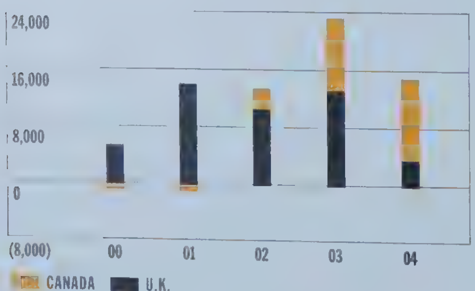
SELECTED FINANCIAL INFORMATION

	2004		2003		2002 (restated) [2]	
	$000s	*$/boe*	*$000s*	*$/boe*	*$000s*	*$/boe*
Net revenue [1]	**32,976**	**34.09**	38,943	33.58	30,097	34.23
Operating expense	**13,053**	**13.49**	11,709	10.10	12,812	14.57
Operating netback	**19,923**	**20.60**	27,234	23.48	17,285	19.66
Other corporate expenses	**5,168**	**5.34**	3,532	3.05	3,497	3.98
Current tax	**14**	**0.01**	70	0.06	175	0.20
Funds flow from operations	**14,741**	**15.25**	23,632	20.38	13,613	15.48
Stock-based compensation	**466**	**0.49**	55	0.05	–	–
DD&A	**17,785**	**18.39**	20,717	17.87	10,679	12.14
Risk management – unrealized	**99**	**0.10**	–	–	–	–
Future income taxes recovery	**(408)**	**(0.42)**	(989)	(0.85)	(1,669)	(1.90)
Total non-cash expenses	**17,942**	**18.56**	19,783	17.07	9,010	10.24
Net income (loss)	**(3,201)**	**(3.31)**	3,849	3.31	4,603	5.24
Net income (loss)						
Per share (basic and diluted)	**$ (0.05)**		$ 0.06		$ 0.09	
Funds flow from operations						
Per share (basic and diluted)	**$ 0.23**		$ 0.38		$ 0.27	
Total assets	**104,258**		90,463		85,144	
Debt and working capital (deficiency)	**(16,022)**		(2,829)		(4,850)	

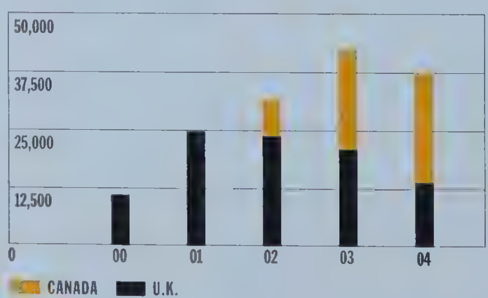
(1) Net revenue includes operating revenue (net of royalties and transportation) plus interest and other revenue.

(2) 2002 is restated for the effects of adoption of the CICA Handbook section 3110 Asset Retirement Obligation

Funds Flow from Operations ($000s)



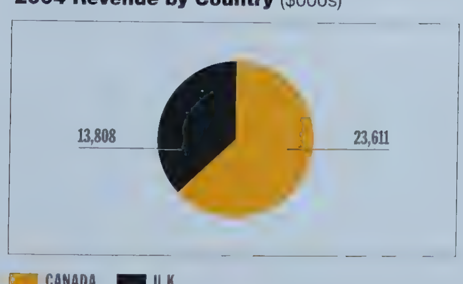
Revenue ($000s)



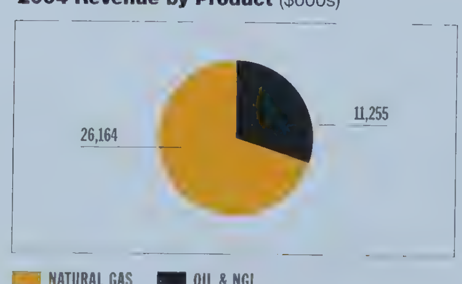
	Net Revenues	Net Income (loss)	Net Income (loss) per share Basic and Diluted
	$000s	*$000s*	
2004			
First quarter	**8,262**	**(621)**	**(0.01)**
Second quarter	**9,243**	**(1,049)**	**(0.02)**
Third quarter	**6,575**	**(1,794)**	**(0.03)**
Fourth quarter	**8,896**	**263**	**0.00**
Total	**32,976**	**(3,201)**	**(0.05)**
2003			
First quarter	15,181	3,698	0.06
Second quarter	9,547	2,855	0.05
Third quarter	7,148	(751)	(0.01)
Fourth quarter	7,067	(1,953)	(0.03)
Total	38,943	3,849	0.06
2002			
First quarter	4,976	614	0.01
Second quarter	609	(3,958)	(0.08)
Third quarter	10,886	3,112	0.06
Fourth quarter	13,626	4,835	0.08
Total	30,097	4,603	0.09

Bow Valley maintains a balance between geographic regions (Canada/United Kingdom) and between major products (oil/natural gas). The Company generates the majority of its oil and liquids revenue from the North Sea and the majority of natural gas revenue from western Canada. In 2004, the overall mix of net revenue was 54% Canada and 46% U.K. and 69% natural gas and 31% oil. This balance allows the Company to make better capital allocation decisions and allows more flexibility in near-term spending. To reflect this balance, this MD&A focuses on each region separately and then discusses corporate expenses.

2004 Revenue by Country ($000s)



2004 Revenue by Product ($000s)



CANADA

The following discussion applies to the Canadian operations only. Discussion regarding the Company's U.K. operations can be found in the U.K. section of this MD&A.

RESERVES

Bow Valley had its Canadian reserves independently evaluated as of December 31, 2004 by Ryder Scott Company. The Company's proved plus probable reserves are considered the most likely case because there is an equal probability that the actual volumes eventually recovered will be higher or lower than the proved plus probable estimates. Company proved reserves are based on a 90% confidence level, that is, the actual volume recovered will meet or exceed the indicated Company proved reserves 9 times out of 10.

Bow Valley's Reserve Committee meets with the Company's independent engineers and has reviewed the reserves reports. We present the summary information below. The Company provides additional information in its Annual Information Form (AIF) and other annual filings.

Canadian Reserves Table (Forecast Pricing)

Company WI Reserves	Gas	Oil	NGL	BOE
Total proved	*(mmcf)*	*(mbbls)*	*(mbbls)*	*(mboe)*
Jan 1, 2004 opening	8,078	17	172	1,535
Revisions	794	32	18	182
Economic factors	–	–	–	–
Drilling discoveries	4,437	12	33	785
Drilling extensions/infill	2,902	27	77	588
Acquisitions	–	–	–	–
Divestitures	–	(1)	–	(1)
Production	(3,055)	(17)	(56)	(582)
Dec 31, 2004 closing	13,156	70	244	2,507

Company WI Reserves	Gas	Oil	NGL	BOE
Total proved plus probable	*(mmcf)*	*(mbbls)*	*(mbbls)*	*(mboe)*
Jan 1, 2004 opening	11,039	23	230	2,093
Revisions	395	50	–	116
Economic factors	–	–	–	–
Drilling discoveries	6,952	18	93	1,269
Drilling extensions/infill	4,309	37	119	874
Acquisitions	–	–	–	–
Divestitures	–	(1)	–	(1)
Production	(3,055)	(17)	(56)	(582)
Dec 31, 2004 closing	19,639	110	386	3,769

Total proved plus probable reserves increased 80% year-over-year, to 3.8 million boe as a result of the Company's successful exploration and development drilling program in western Canada during 2004. Total additions (discoveries, extensions and infills) of 2.1 mmboe and positive revisions of 0.1 mmboe were offset by production and dispositions of slightly under 0.6 mmboe. Total proved reserves increased by 63% due to discoveries and extensions of 1.4 mmboe and positive revisions of 0.2 mmboe offset by production and dispositions of slightly under 0.6 mmboe. The most significant drilling additions during the year occurred at the Company's Hamelin Creek and Boucher properties in the Peace River Arch as well as at the Rosevear and Gilby properties in

west-central Alberta. Revisions showed a modest positive bias in 2004 in both the proved and proved plus probable categories. Many of the Company's properties showed small positive revisions, including the Earring and Cardiff properties where successful well recompletions resulted in additions to reserves.

Total additions of 2.1 mmboe compare to total production of slightly under 0.6 mmboe representing a production replacement of proved plus probable reserves of 359% (proved – 205%).

REVENUE

Canadian Revenue and Funds Flow Table

	2004		2003		% change	
	$000s	*$/boe*	*$000s*	*$/boe*	*$000s*	*$/boe*
Operating revenue	**22,934**	**39.40**	21,552	38.72	6	2
Interest and other	**6**	**0.01**	14	0.03	(57)	(67)
Royalties	**(5,067)**	**(8.70)**	(5,215)	(9.37)	(3)	(7)
Net revenue	**17,873**	**30.71**	16,351	29.38	9	5
Operating costs	**4,195**	**7.21**	3,491	6.28	20	15
Operating netback	**13,678**	**23.50**	12,860	23.10	6	2
General and administrative costs	**2,148**	**3.69**	1,820	3.27	18	13
Interest expense	**312**	**0.54**	123	0.22	154	145
Foreign exchange loss	**1**	**0.00**	68	0.12	(99)	(100)
Current income taxes	**14**	**0.02**	70	0.13	(80)	(85)
Risk management realized	**–**	**0.00**	495	0.88	(100)	(100)
Total cash expenses	**2,475**	**4.25**	2,576	4.62	(4)	(8)
Funds flow from operations	**11,203**	**19.25**	10,284	18.48	9	4
Net income (loss)	**(325)**	**(0.56)**	(1,115)	(2.00)	(71)	(72)

	Q4/04		Q4/03		% change	
	$000s	*$/boe*	*$000s*	*$/boe*	*$000s*	*$/boe*
Operating revenue	**6,059**	**42.29**	4,496	35.52	35	19
Interest and other	**–**	**–**	(4)	(0.04)	(100)	(100)
Royalties	**(1,412)**	**(9.86)**	(1,622)	(12.81)	(13)	(23)
Net revenue	**4,647**	**32.43**	2,870	22.67	62	43
Operating costs	**1,081**	**7.54**	978	7.72	11	(2)
Operating netback	**3,566**	**24.89**	1,892	14.95	88	66
General and administrative costs	**853**	**5.95**	325	2.57	162	132
Interest expense	**153**	**1.07**	91	0.72	68	49
Foreign exchange loss	**1**	**0.01**	24	0.19	(96)	(95)
Current income taxes	**10**	**0.07**	(5)	(0.04)	300	275
Risk management realized	**–**	**0.00**	(21)	(0.17)	100	100
Total cash expenses	**1,017**	**7.10**	414	3.27	145	117
Funds flow from operations	**2,549**	**17.79**	1,478	11.68	72	52
Net income (loss)	**140**	**0.98**	(1,391)	(10.99)	110	109

Revenues are a product of production and prices. The following discussion outlines the Company's Canadian production levels and commodity prices, with comparisons to prior periods.

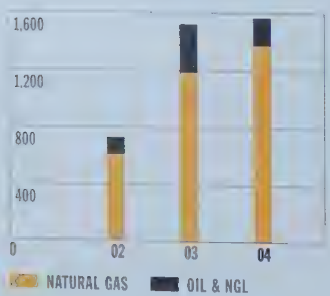
CANADIAN PRODUCTION	**2004**	2003	% change	**Q4/04**	Q4/03	% change
Oil and NGL (bbls/d)	**199**	326	(39)	**123**	257	(52)
Natural gas (mcf/d)	**8,348**	7,193	16	**8,607**	6,714	28
boe/d	**1,590**	1,525	4	**1,558**	1,376	13

In mid-2003, the Company refocused its western Canadian exploration strategy by diversifying risk to achieve a more predictable outcome. The result of this strategy has been an increase in production from late 2003 through 2004 and into early 2005. Canadian production averaged less than 1,000 boe/d in September of 2003, increasing to average 1,558 boe/d in the fourth quarter of 2004 and reaching 2,000 boe/d early in 2005.

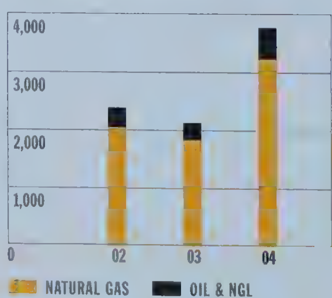
The Company's Canadian production is up year-over-year, due to production additions resulting from a high level of drilling success which has somewhat offset declines from the elevated levels of production experienced in early 2003 originating from the Balsam discovery well. Quarterly production is up year-over-year, also due to 2004 drilling success.

PRICES	**2004**	2003	% change	**Q4/04**	Q4/03	% change
Natural gas						
AECO – Cdn ($/mmbtu)	**6.58**	6.71	(2)	**6.70**	5.59	20
BVX – pre hedge ($/mcf)	**6.57**	6.93	(5)	**6.61**	6.28	5
BVX – hedge effect ($/mcf)	**–**	(0.19)	100	**–**	0.04	(100)
BVX – post hedge ($/mcf)	**6.57**	6.74	(3)	**6.61**	6.32	5
Oil and NGL						
WTI Cushing (US$/bbl)	**41.40**	31.04	33	**48.28**	31.18	55
Edmonton light (Cdn$/bbl)	**52.78**	43.14	22	**58.05**	43.14	35
Corporate average (Cdn$/bbl)	**37.53**	27.15	38	**69.86**	27.15	157
Total operating revenue ($/boe)	**39.40**	37.85	4	**42.28**	37.85	12
US$/Cdn$ exchange	**0.768**	0.714	8	**0.819**	0.763	7

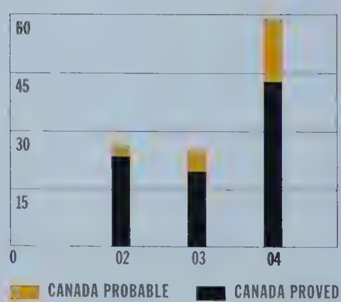
Canadian Production (boe/d)



Canadian Proved & Probable Reserves (mboe)



Canada NPVBT10 ($millions, forecast prices)



Natural Gas

The Company's Canadian natural gas is sold on a daily Alberta market spot price basis. Western Canadian natural gas prices are referenced to the AECO Hub in Alberta. The Company generally receives a small premium to AECO prices due to higher heat content of its natural gas. In 2004, prices averaged $6.57 per mcf, down slightly from the previous year. There were no natural gas hedges in place during 2004. Prices averaged $6.61 per mcf in the fourth quarter of 2004 ($6.28 per mcf before and $6.32 per mcf after hedging effects in the fourth quarter of 2003).

Oil and Natural Gas Liquids

The benchmark price for oil in North America is West Texas Intermediate (WTI). Canadian oil prices are referenced to the posted price at Edmonton, Alberta, which represents the WTI price adjusted for currency, transportation and quality differentials. Bow Valley's oil and liquids production is largely comprised of natural gas liquids, which includes pentanes plus, butane, propane and ethane and results in a lower price compared to the Edmonton Light crude oil reference price. In 2004, the discount averaged $15.25 per barrel. Fourth quarter corporate average oil and NGL prices were higher due to higher oil prices generally, as well as an adjustment to fourth quarter oil and NGL reported production.

ROYALTIES

	2004	2003	% change	**Q4/04**	Q4/03	% change
	$000s	*$000s*		*$000s*	*$000s*	
Crown royalties	**4,155**	3,793	10	**1,216**	933	30
Other royalties	**1,378**	1,922	(28)	**288**	689	(58)
	5,533	5,715	(3)	**1,504**	1,622	(7)
Alberta Royalty Tax Credit	**(466)**	(500)	(7)	**(91)**	–	N/A
Net royalties	**5,067**	5,215	(3)	**1,413**	1,622	(13)
% of revenue	**22%**	24%	(8)	**23%**	36%	(36)

Royalties in Canada are payable to the Crown and others on a sliding scale or fixed basis, with adjustments based on prices, well productivity and product quality. The Alberta Royalty Tax Credit (ARTC) is a credit paid by the Alberta government and is subject to a maximum. The Company reached this annual maximum in 2004 and expects to reach the annual maximum again in 2005.

The increase in crown royalties in 2004 and the fourth quarter of 2004 is attributable to higher revenues and higher prices, while the decrease in other royalties is due to the effect of conversion of some overriding royalty burdens into working interest participation. The percentage decrease is largely due to lower natural gas prices and an ARTC adjustment that was recorded in the fourth quarter of 2003.

OPERATING COSTS

	2004	2003	% change	**Q4/04**	Q4/03	% change
Operating expense $000s	**4,195**	3,491	20	**1,081**	979	10
Operating expense $/boe	**7.21**	6.27	15	**7.54**	7.73	(2)

Operating costs were higher in 2004 versus 2003 due to the Company's higher production in 2004 relative to 2003. Unit operating costs were up due to a greater portion of the Company's production in 2003 arising from the low-unit operating cost production at the Balsam field discovery well, as well as higher costs in 2004 for energy and higher costs of services. The Company also performed a higher than normal number of well workovers in 2004, which also contributed to higher costs on an absolute and a per-unit basis.

Fourth quarter 2004 operating expenses were higher due to the higher volumes produced in the quarter while per unit operating expenses were not materially different year-over-year.

The vast majority of Bow Valley's natural gas production is gathered, processed and/or compressed through third-party infrastructure on a fee basis. These fees constitute between $0.40 and $1.00 per mcf ($2.40 – $6.00 per boe) of operating cost depending upon the facilities accessed. Utilizing third-party facilities generally results in somewhat higher per unit production costs than using owned facilities, but it also reduces the time and capital required to bring new discoveries on stream. It also allows the Company to maximize capital available for exploration and drilling activities, and permits much greater flexibility in accommodating a broad spectrum of expected production rates and project life spans that would be difficult to achieve cost effectively through a Company-owned facility.

Low production rate properties with owned/operated facilities (Mikwan, Stettler and Highvale) have a high component of fixed costs that adversely affect per unit figures. The Company can mitigate these high costs to some degree by adding production volumes. The Company's focus in these areas is to increase production via well optimization, recompletions and new drilling, to the extent possible. The Company sold the Stettler property late in 2004. This property contributed approximately 1% of Canadian production but accounted for 7% of operating costs. As a result of the sale, Canadian unit operating costs should decrease slightly in the future, relative to the status quo.

DEPLETION, DEPRECIATION AND ACCRETION

	2004	2003	% change	**Q4/04**	Q4/03	% change
Total depletion, depreciation and accretion *($000s)*	**11,470**	12,334	(7)	**2,341**	4,057	(42)
Total depletion, depreciation and accretion $/boe	**19.71**	22.65	(13)	**16.33**	32.03	(49)

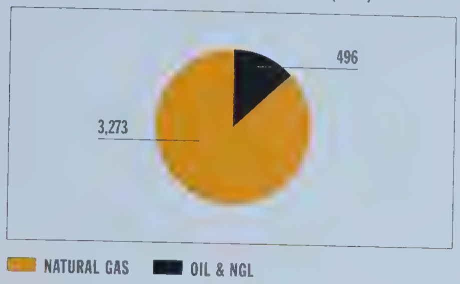
In 2004, DD&A expense was lower due to a lower per unit DD&A expense, occurring largely in the fourth quarter of 2004. Unit DD&A expense fell due to the proved reserve additions and positive reserve revisions previously outlined. Fourth quarter DD&A was lower year-over-year on an absolute and per-unit basis for the same reasons; however, it was magnified by the effect of the reserve additions in the fourth quarter.

GOODWILL

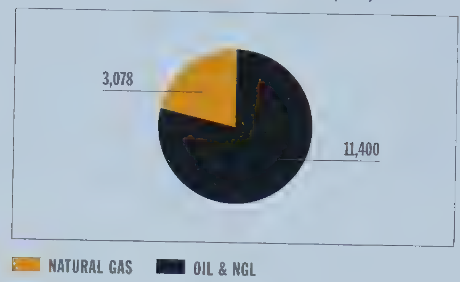
At December 31, 2004, the Company had $8.5 million in goodwill (2003 – $8.5 million) recorded on its balance sheet, arising from the Company's acquisition of Boundary Creek Resources Ltd. in 2002.

The Company recorded no additional goodwill in 2004. The Company does not amortize goodwill but tests it at least annually for impairment. The Company has made no provision for impairment of goodwill at December 31, 2004. Goodwill could become impaired in the future and in such event, a write-down would occur.

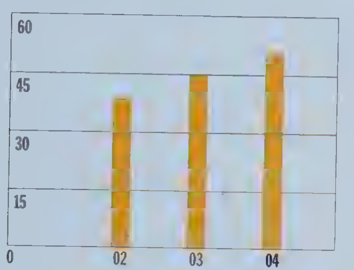
2004 Canada
Proved Plus Probable Reserves (boe)



2004 U.K.
Proved Plus Probable Reserves (boe)

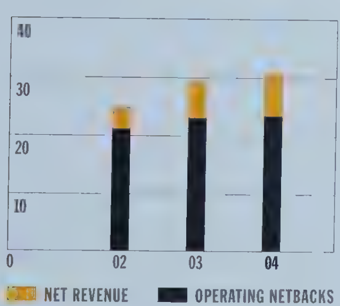


Canadian Undeveloped Land
(thousand net acres)

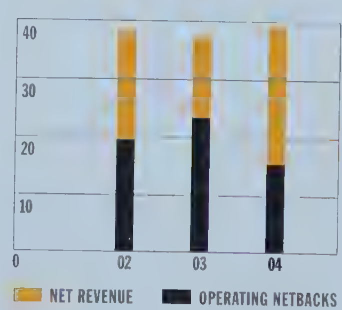


U.K. Undeveloped Land
(thousand net acres)

Operating Netback – Canada ($/boe)



Operating Netback – U.K. ($/boe)



UNITED KINGDOM

The following discussion relates only to the Company's U.K. reserves. For discussion regarding the Company's Canadian reserves, please see the reserves discussion in the Canada section of this MD&A.

RESERVES

Bow Valley had its U.K. reserves independently evaluated as of December 31, 2004 by APA Petroleum Engineering Inc. For important disclosure regarding the Company's reserves see the Canadian reserves section in this MD&A.

U.K. Reserves Table (Forecast Pricing)

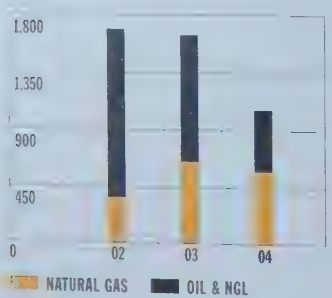
	Gas	Oil	NGL	BOE
Total proved	*(mmcf)*	*(mbbls)*	*(mbbls)*	*(mboe)*
Jan 1, 2004 opening	7,266	690	140	2,045
Revisions	–	(50)	(50)	(100)
Drilling discoveries	–	–	–	–
Drilling extensions	–	–	–	–
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Production	(1,230)	(180)	–	(385)
Dec 31, 2004 closing	6,036	460	90	1,560

	Gas	Oil	NGL	BOE
Total proved plus probable	*(mmcf)*	*(mbbls)*	*(mbbls)*	*(mboe)*
Jan 1, 2004 opening	21,666	12,470	170	16,255
Revisions	(1,968)	(1,030)	(30)	(1,388)
Drilling discoveries	–	–	–	–
Drilling extensions	–	–	–	–
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Production	(1,230)	(180)	–	(385)
Dec 31, 2004 closing	18,468	11,260	140	14,477

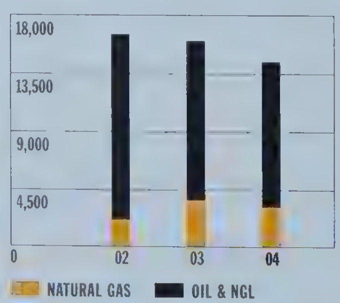
The Company's U.K. proved plus probable reserves declined by 11% due to production of 0.4 mmboe, downward revisions of 1.0 mmboe, and working interest adjustments of 0.3 mmboe. Bow Valley's U.K. proved reserves declined by 24% due to production of 0.4 mmboe and downward revisions of 0.1 mmboe. The proved plus probable reserve revisions were largely related to Enoch and Chestnut properties.

Enoch revisions to probable reserves resulted from a lower assumed pre-unitized interest due to the progression of negotiations between the U.K. and Norwegian owners of the Enoch field, as well as a move to a primary depletion case for development,

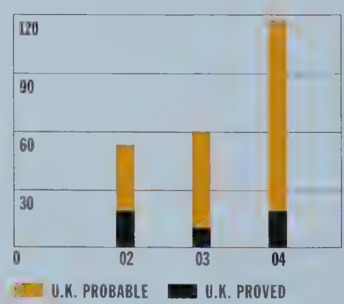
U.K. Sales Volume (boe/d)



U.K. Proved & Probable Reserves (mboe)



U.K. NPVBT10 ($millions, forecast prices)



based on the most recent engineering work done by the operator. The net present value of the Company's interest in Enoch has increased due to acceleration of development, reduced capital costs and higher oil prices.

Chestnut probable reserves were reduced due to the operator's proposal for a stand-alone development, which would lead to much lower capital investment, but would also result in higher operating costs, an earlier economic cutoff and lower reserves. In prior years, the reserves at Chestnut were evaluated assuming a sub-sea tie-back to fixed platform facilities. A final decision on how the Chestnut field will be developed has not yet been made.

REVENUE

U.K. Revenue and Funds Flow Table

	2004		2003		% change	
	$000s	*$/boe*	*$000s*	*$/boe*	*$000s*	*$/boe*
Operating revenue	**13,808**	**35.83**	20,819	34.53	(34)	4
Interest and other	**1,317**	**3.42**	1,820	3.02	(28)	13
Royalties	**(22)**	**(0.06)**	(47)	(0.08)	(53)	(25)
Net revenue	**15,103**	**39.19**	22,592	37.47	(33)	5
Operating costs	**8,858**	**22.98**	8,218	13.63	8	69
Operating netback	**6,245**	**16.21**	14,374	23.84	(57)	(32)
General and administrative costs	**1,886**	**4.89**	657	1.09	187	349
Interest expense	**705**	**1.83**	538	0.89	31	106
Foreign exchange loss (gain)	**133**	**0.35**	(293)	(0.49)	145	171
Risk management – realized	**(17)**	**(0.04)**	123	0.21	114	119
Total cash expenses	**2,707**	**7.03**	1,025	1.70	164	314
Funds flow from operations	**3,538**	**9.18**	13,349	22.14	(74)	(59)
Net income (loss)	**(2,876)**	**(7.46)**	4,964	8.23	(158)	(191)

	Q4/04		Q4/03		% change	
	$000s	*$/boe*	*$000s*	*$/boe*	*$000s*	*$/boe*
Operating revenue	**3,810**	**37.68**	3,891	31.80	(2)	19
Interest and other	**443**	**4.38**	313	2.56	42	71
Royalties	**(4)**	**(0.04)**	(8)	(0.07)	(50)	(43)
Net revenue	**4,249**	**42.02**	4,196	34.29	(1)	23
Operating costs	**1,979**	**19.57**	1,639	13.39	21	46
Operating netback	**2,270**	**22.45**	2,557	20.90	(11)	7
General and administrative costs	**655**	**6.48**	52	0.42	1,160	1,443
Interest expense	**202**	**2.00**	252	2.06	(20)	(3)
Foreign exchange loss (gain)	**(9)**	**(0.09)**	168	1.37	(105)	(107)
Risk management – realized	**(17)**	**(0.17)**	–	–	–	–
Total cash expenses	**831**	**8.22**	472	3.85	76	114
Funds flow from operations	**1,439**	**14.23**	2,085	17.05	(31)	(17)
Net income (loss)	**123**	**1.22**	(562)	(4.59)	122	127

Revenues are a product of production and prices. The following discussion outlines the Company's U.K. production levels and commodity prices with comparisons to prior periods.

U.K. SALES VOLUMES

	2004	2003	% change	Q4/04	Q4/03	% change
Oil and NGL (bbls/d)	**497**	1,002	(50)	**391**	795	(51)
Natural gas (mcf/d)	**3,337**	3,900	(14)	**4,245**	3,210	32
Boe/d	**1,053**	1,652	(36)	**1,099**	1,330	(17)

The Kyle field is the Company's only producing field in the North Sea. The field produces into a floating production storage and offloading vessel (FPSO) and the Company records sales when the inventory is offloaded (lifted) to a shuttle tanker and sold. Oil sales were lower in 2004 due to a lower number of liftings than 2003 and a significant amount of oil in inventory at year-end (63,000 barrels). The lower number of liftings was due to declines in oil production, due to the maturing of the field, as well as production issues at two of the four wells capable of production, resulting in extended periods of shut-in for the two wells. One of the wells (K14) was brought back on production in the fourth quarter and produced at greater than expected rates for the remainder of the year, but production was not fully recognized as sales due to the timing of liftings. Natural gas production is sold on a continuous basis, and is recognized when produced, and was lower year-over-year due to operational decisions.

PRICES

	2004	2003	% change	Q4/04	Q4/03	% change
Natural gas						
BVX (Cdn$/mcf)	**4.36**	4.20	4	**4.78**	4.75	1
Oil and NGL						
Brent (US$/bbl)	**38.23**	28.86	32	**44.13**	29.49	50
BVX – pre hedge ($/bbl)	**46.65**	40.59	15	**53.97**	36.55	48
BVX – hedge effect ($/bbl)	**(0.45)**	(0.34)	32	**13.79**	–	N/A
BVX – post hedge ($/bbl)	**46.20**	40.25	15	**67.76**	36.55	85
Total operating revenue ($/boe)	**35.61**	34.32	4	**42.61**	37.85	13
US$/Cdn$ exchange	**0.768**	0.714	8	**0.819**	0.763	7

Oil

The benchmark price for oil in the U.K. North Sea is Brent crude. Brent generally trades at a discount to WTI, with that discount varying due to relative demand for oil between Europe and North America as well as tanker costs for transporting oil between the two continents. Prices were higher for the full year and fourth quarter compared to the prior year due to stronger Brent prices as well as a stronger Canadian dollar. Hedging gains had a significant effect in the fourth quarter of 2004 ($0.5 million gain) compared to no effect in the fourth quarter of 2003. In the U.K., production from the Kyle field receives a slight premium compared to the Brent benchmark price. In 2004, that premium averaged US$1.00 per barrel (2003 – US$1.19 per barrel). In the fourth quarter the premium averaged US$0.77 per barrel (2003 – US$1.12 per barrel).

Natural Gas

In the U.K., natural gas is contracted with the price recalculated on an annual basis each October. The price is set based on a formula indexed by the arithmetic average of the natural gas and oil price for the previous year in the U.K. as well as historical index prices for natural gas. The only price variable during the year results from fluctuations in the British pound sterling to Canadian dollar exchange rate.

ROYALTIES

There is no crown royalty payable on oil or natural gas production in the U.K. The Company is required to pay a gross overriding royalty of US$0.10 per barrel on oil production from the Kyle field to a third party. In 2004, Bow Valley made royalty payments of $0.02 million (2003 – $0.05 million).

OPERATING COSTS

	2004	2003	% change	**Q4/04**	Q4/03	% change
Operating expense $000s	**8,858**	8,218	8	**1,979**	1,639	21
Operating expense $/boe	**22.98**	15.38	49	**19.57**	13.39	46
Pipeline interruption $/boe	**–**	(1.75)	100	**–**	–	–
Net operating expense $/boe	**22.98**	13.63	69	**19.57**	13.39	46

The majority of operating costs for the Kyle field are fixed and relate to the cost of leasing the FPSO. These costs are somewhat offset by tariff income for processing third-party production from a nearby field. Operating costs were higher in 2004 due to the effect of an insurance recovery received in 2003 relating to a pipeline blockage in 2002 which reduced 2003 operating costs. Unit operating costs were relatively higher in 2004 due to the insurance recovery as well as lower production through the fixed-cost FPSO in 2004. To alleviate these higher operating costs, Bow Valley, in conjunction with the Kyle partners, has given notice to terminate the contract with the FPSO in September, 2005 and divert production to a nearby facility on a tariff basis. The result will be to lower operating costs significantly beginning in the fourth quarter of 2005. Operating costs relating to oil produced, but not sold, have been included in inventory ($1.3 million).

DEPLETION, DEPRECIATION AND ACCRETION

	2004	2003	% change	**Q4/04**	Q4/03	% change
Total depletion, depreciation and accretion *($000s)*	**5,949**	8,019	(26)	**1,709**	3,113	(45)
Total depletion, depreciation and accretion $/boe	**15.43**	13.29	16	**16.91**	20.48	(17)

U.K. DD&A was largely affected by the lower proved reserve base as discussed in other sections of this MD&A. The lower reserve base resulted in higher DD&A charges for 2004 relative to 2003, although total DD&A was lower due to lower production. In the fourth quarter of 2004, DD&A was lower due to the lower unit DD&A as well as lower production.

CORPORATE

INTEREST AND OTHER INCOME

The Company began recovering the cost of its investment from its Balal project in Iran in 2003 and expects to recover the remainder of the costs related to this project over the next 12 months. The Company's total cost to date has been approximately US$1.5 million. During 2004, the Company recorded C$1.0 million of cost recovery in other income (2003 – C$1.0 million) from the Balal project and recorded amortization and general and administrative costs of C$0.4 million (2003 – $0.4 million).

INTEREST EXPENSE

Bow Valley recorded a total of $1.0 million of interest expense for 2004 (2003 – $0.7 million). Interest expense for the fourth quarter 2004 was $0.4 million, compared to $0.3 million for 2003. Interest expense was higher due to the Company carrying higher levels of debt.

GENERAL AND ADMINISTRATIVE EXPENSES

	2004	2003	% change	Q4/04	Q4/03	% change
	$000s	$000s		$000s	$000s	
Regular G&A	**4,083**	2,977	37	**1,415**	672	111
U.K. office [1]	**1,887**	866	118	**655**	260	152
Overhead recoveries	**(417)**	(399)	5	**(129)**	(96)	34
Subtotal	**5,553**	3,444	61	**1,941**	836	132
Capitalized overhead	**(1,051)**	(912)	15	**(270)**	(405)	(33)
G&A as reported	**4,502**	2,532	78	**1,671**	431	288

1) Allocated amount

General and administrative expenses (G&A) for 2004 were $4.5 million, compared to 2003 expenses of $2.5 million. The higher costs related to an increase in the costs of compliance with new securities regulations, higher cash and non-cash compensation related to a higher staff complement to support higher activity levels, and higher occupancy costs at the Company's Calgary office. Fourth quarter 2004 G&A was $1.7 million compared to 2003 fourth quarter G&A of $0.4 million and was higher for similar reasons as the yearly increase.

FOREIGN EXCHANGE

Bow Valley's wholly-owned subsidiary Bow Valley Petroleum (U.K.) Limited has a bank facility that is denominated in U.S. dollars. Production revenue is denominated in U.S. dollars, current accounts, including accounts payable, are typically denominated in British pounds sterling. As a result of the fluctuations in the value of the Canadian dollar versus the United States dollar and British pounds sterling between the time the debt and payables were incurred and the time they were repaid or valued on the balance sheet dates, the Company realized a loss of $0.1 million for 2004 (2003 – gain of $0.2 million) and a 2004 fourth quarter gain of $0.01 million (2003 – loss of $0.2 million).

ASSET RETIREMENT OBLIGATION

At December 31, 2004, the present value of the Company's asset retirement obligation was $9.6 million (2003 – $8.1 million). The total undiscounted expected cost of abandonment and site reclamation is $20.7 million and is expected to be paid over the next 38 years with the majority between 2015 and 2022.

OTHER ASSETS

Current Other Assets includes the remaining Balal project cost recovery amount which is expected to be recovered over the next 12 months. Also included in other assets is $2.3 million of oil inventory that has been produced but not sold as of December 31, 2004 from U.K operations. The inventory value is comprised of $1.3 million of operating costs and $1.0 million of depletion.

TAXES

Current tax expense relates solely to capital taxes paid by Bow Valley Energy Ltd. No cash income taxes were payable in either 2004 or 2003.

Canada

The Company recorded a future tax recovery of $0.4 million for 2004 compared to a recovery of $1.0 million in 2003. The recovery in 2004 is related to the reduction in provincial income tax rates; changes to the Canadian federal resource allowance deduction; the deductibility of crown charges; and the taxability of the ARTC. Future federal tax rate reductions are being phased in over the following three years.

U.K.

Bow Valley offset possible future tax benefits by recording a full valuation allowance relating to losses and unclaimed tax pools in the U.K.

The Company has tax pools available of $38.1 million in Canada (2003 – $31.2 million) and $39.6 million in the U.K. (2003 – $34.4 million). The Company does not anticipate paying any current income tax in either jurisdiction in 2005.

CAPITAL COSTS

Canada	**2004** *$000s*	2003 *$000s*	% change	**Q4/04** *$000s*	Q4/03 *$000s*	% change
Land and lease costs	**1,812**	1,351	34	**243**	230	6
Geological and geophysical	**1,452**	1,536	(5)	**523**	163	221
Drilling and completion	**13,490**	11,415	18	**5,373**	2,740	96
Tangible production equipment	**4,305**	2,567	68	**1,221**	1,417	(14)
Other	**1,120**	782	43	**246**	243	1
Total	**22,179**	17,651	26	**7,606**	4,793	59

U.K.	**2004** *$000s*	2003 *$000s*	% change	**Q4/04** *$000s*	Q4/03 *$000s*	% change
Acquisition – Chestnut	**–**	1,182		**–**	1,182	–
Acquisition – Ettrick	**30**	–	100	**–**	–	–
Development						
Kyle	**2,685**	(20)	–	**602**	24	–
Chestnut	**343**	66	420	**104**	49	112
Ettrick	**736**	–	–	**231**	–	–
Blane	**155**	–	–	**155**	–	–
Enoch	**207**	–	–	**(202)**	–	–
Other	**–**	86	–	**–**	(3)	–
Exploration						
Aviemore	**1,673**	2,969	(44)	**169**	2,752	(94)
Joppa	**148**	2,980	(95)	**144**	111	30
Joppa seismic	**57**	1,270	(96)	**–**	(336)	–
Squirrel	**47**	961	(95)	**42**	2	2000
West Compton	**–**	24	–	**–**	(29)	–
Other	**613**	814	(25)	**47**	189	(75)
Total	**6,694**	10,332	(35)	**1,696**	3,941	(57)

In Canada, capital costs were $22.2 million for 2004, an increase of $4.5 million over 2003. The drilling and equipping cost increase reflects the Company's expanded exploration activities in western Canada.

In the U.K., the capital costs were $6.7 million for 2004, a decrease of $3.6 million over 2003. The reduction in spending is attributable to a reduced exploration effort in 2004.

LAND

	Undeveloped		Developed	
(acres)	Gross	Net	Gross	Net
Total international	225,048	41,600	13,912	1,988
Total domestic	87,872	50,796	61,521	24,098
Total	312,920	92,396	75,433	26,086

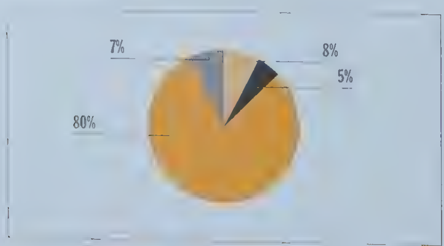
DRILLING ACTIVITY

	U.K.		Canada	
	Gross	Net	Gross	Net
Oil	–	–	2	1.7
Natural gas	–	–	19	9.7
Abandoned	1	0.3	2	2.0
Natural gas suspended	–	–	3	1.5
Total	1	0.3	26	14.9

LIQUIDITY AND CAPITAL RESOURCES

At year-end 2004, the Company had a working capital deficiency of $16.0 million which includes bank drawings of $10.0 million. The Company is able to finance this deficiency through bank lines and funds flow from operations. The Company has a bank facility in the U.K. with an approved limit of US$3.5 million. At year-end 2004, US$2.3 million was drawn on this facility. In Canada, the Company has a $20.0 million facility. At year-end 2004, the Company had approximately $7.3 million drawn on this facility.

2004 Canada Capital Spending



SEISMIC LAND OTHER
DRILLING, COMPLETION, TANGIBLE

COMMODITY RISK MANAGEMENT

Due to the Company's strong balance sheet, Bow Valley is better able to withstand variances in commodity prices and as a result, the Company has done little hedging. The Company may consider hedging from time to time, especially relating to acquisitions. The Company's hedging policy is outlined in Note 1(h) to the Financial Statements. In 2004, the Company incurred an unrealized loss of $0.1 million and a realized gain of $0.02 million due to natural gas and oil hedging. In 2003, realized hedging losses were $0.6 million. In the fourth quarter, the Company incurred an unrealized gain of $0.5 million and a realized gain of $0.02 million. There was a $0.02 million hedging gain in the fourth quarter of 2003.

The Company currently has hedged 50,000 barrels of oil for May 2005 at a price of US$38.90 per barrel, on a dated Brent basis. There are no natural gas hedges in place.

CONTRACTUAL REQUIREMENT/COMMITMENTS

In the North Sea, Bow Valley has participated in a contract for the use of an FPSO at the Kyle field. The contract is £14,000 per day (net) and runs to November, 2005 but can be terminated earlier with 16 months notice. The Company has given adequate notice and this contract will be terminated in September, 2005.

In Canada, the Company enters into non-material commitments for compressors and pipeline access in the normal course of business. These commitments are short term in nature, expiring before the end of 2005. The Company's office lease commitments are outlined in Note 13 to the 2004 Financial Statements.

OUTLOOK/BUSINESS RISKS

Bow Valley is forecasting capital spending in Canada of $25 million in 2005. We will continue to build on our recent drilling success and production momentum in western Canada and we expect to continue to post strong finding and development cost performance in 2005. This forecast capital budget will be financed by available cash flow, bank lines and possible new equity.

In the U.K., the 2005 budget has not yet been approved due to the uncertainty regarding the timing of expenditures on the Company's U.K. assets. Capital expenditures for current projects could be as high as $20 million depending upon the pace of spending at Blane, Enoch and Chestnut. The Company will have greater clarity by the end of the first quarter of 2005. The Company currently expects that the development of these fields can be funded entirely out of cash flow and bank debt; however, these bank lines are not currently in place and may not be available in the amounts required. Potential acquisition opportunities in the North Sea continue to be evaluated. Financing these projects or potential acquisitions would require more capital than the Company currently has available and it is expected they would be funded out of cash flow, new bank lines and new equity.

The Company expects commodity prices to be volatile, reflecting the current tight supply and demand fundamentals for North American natural gas and world crude oil. Political and financial events around the world, which are impossible to predict, will continue to influence both oil and natural gas prices. Higher commodity prices often lead to higher levels of industry activity which in turn lead to higher costs for land, reserves and services. These higher costs influence the investment returns received on the Company's capital costs.

In addition to volatile commodity prices, the Company's results are influenced by currency exchange rates between the Canadian dollar, U.S. dollar and British pound sterling. The Company has mitigated some of this risk by diversifying its borrowings to include U.S. and Canadian dollar debt.

Additional information may be found on the SEDAR website at www.sedar.com.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Bow Valley Energy Ltd. and all other financial and operating information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and in accordance with generally accepted accounting principles in Canada.

The Company's systems of internal control have been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements. They have performed such tests as they deemed necessary to enable them to express an opinion on these consolidated financial statements.

An Audit Committee of the Board of Directors has reviewed these consolidated financial statements with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

ROBERT G. MOFFAT
President and Chief Executive Officer
February 25, 2005

MATTHEW L JANISCH
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF BOW VALLEY ENERGY LTD.

We have audited the consolidated balance sheets of Bow Valley Energy Ltd. as at December 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants
Calgary, Alberta
February 25, 2005

CONSOLIDATED BALANCE SHEETS

As at December 31	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,008,554	$ 4,573,627
Accounts receivable	7,544,499	6,483,314
Other *(note 4)*	2,913,806	1,217,530
	14,466,859	12,274,471
Property, plant and equipment *(note 2)*	81,278,663	69,102,886
Goodwill *(note 3)*	8,512,450	8,512,450
Other assets *(note 4)*	–	573,515
	$ 104,257,972	$ 90,463,322
LIABILITIES		
Current liabilities		
Accounts payable	$ 20,363,302	$ 13,216,725
Risk management *(note 12)*	98,564	–
Bank indebtness *(note 5)*	10,027,533	1,886,614
	30,489,399	15,103,339
Asset retirement obligation *(note 6)*	9,563,499	8,094,765
Future income taxes *(note 7)*	2,431,709	898,755
SHAREHOLDERS' EQUITY		
Share capital *(note 9)*	80,366,955	82,224,840
Contributed surplus *(note 8)*	521,427	55,251
Deficit	(19,115,017)	(15,913,628)
	61,773,365	66,366,463
	$ 104,257,972	$ 90,463,322

Approved by the Board,

DARYL K. SEAMAN
Director

GEORGE Y. TOOLEY
Director

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

For the years ended December 31	2004	2003
Revenue		
Operating	$ 37,419,338	$ 42,573,964
Transportation expenses	(677,412)	(202,982)
Interest and other	1,322,999	1,833,455
Royalties (net of royalty tax credit)	(5,088,825)	(5,261,846)
	32,976,100	38,942,591
Expenses		
Operating	13,052,924	11,708,826
General and administrative	4,501,729	2,532,862
Interest	1,016,939	660,870
Foreign exchange loss (gain)	133,424	(225,339)
Risk management – unrealized	98,564	–
Risk management – realized	(17,284)	617,652
Depletion, depreciation and amortization	17,164,822	20,215,685
Accretion	620,384	501,821
	36,571,502	36,012,377
Net income (loss) before tax	(3,595,402)	2,930,214
Taxes		
Current *(note 7)*	13,986	70,382
Future income tax recovery *(note 7)*	(407,999)	(989,665)
	(394,013)	(919,283)
Net income (loss) for the period	(3,201,389)	3,849,497
Deficit		
Beginning of the year	(15,913,628)	(19,763,125)
End of the year	$ (19,115,017)	$ (15,913,628)
Net income (loss) for the period *(note 10)*		
Basic and diluted	$ (0.05)	0.06

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31	2004	2003
Operating activities		
Net income (loss) for the year	$ (3,201,389)	$ 3,849,497
Non-cash items		
Risk management – unrealized	98,564	–
Depletion, depreciation & amortization	17,164,822	20,215,685
Accretion	620,384	501,821
Contributed surplus	466,176	55,251
Future income tax (recovery)	(407,999)	(989,665)
Funds flow from operations	14,740,558	23,632,589
Net change in non-cash working capital	1,024,825	7,067,056
	15,765,383	30,699,645
Investing activities		
Acquisition of property, plant and equipment	(28,872,920)	(27,982,534)
Disposition of property, plant and equipment	–	330,363
Abandonment costs	(210,649)	(28,589)
Net change in non-cash working capital	3,711,599	(2,562,302)
	(25,371,970)	(30,243,062)
Financing activities		
Issue of Class A Common Shares for		
Private placement	–	5,000,000
Exercise of options	89,621	203,039
Share issue costs	(6,553)	(351,131)
Bank indebtedness	8,140,916	(4,423,786)
Debenture	817,530	–
	9,041,514	428,122
Increase (decrease) in cash	(565,073)	884,705
Cash and short-term investments, beginning of period	4,573,627	3,688,922
Cash and short-term investments, end of period	$ 4,008,554	$ 4,573,627
Cash flow supplemental information – cash paid		
Capital taxes paid	61,087	11,523
Interest paid	678,009	642,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Bow Valley Energy Ltd. (the "Company") have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Management estimates and measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates include those related to unsettled transactions and events as of the date of the financial statements. Others include estimates related to depletion, depreciation, amortization, accretion, asset retirement obligations, future taxes, goodwill and the ceiling test. Actual results will differ from estimated amounts.

Significant accounting policies are summarized as follows:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company, all of its wholly-owned subsidiaries, and a 50% owned company (Croft (UK) Limited) which is consolidated using the proportionate consolidation method of accounting.

(b) Property, plant and equipment

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized and accumulated in country-by-country cost centres. Such costs include land acquisition, geological and geophysical, carrying of non-producing properties, drilling productive and non-productive wells, and plant and equipment.

Gains or losses on sales of properties are recognized only when crediting the proceeds to capitalized costs would result in a change of 20% or more in the depletion rate.

Depletion and depreciation of properties and equipment is provided using the unit-of-production method based on the Company's share of proved oil and natural gas reserves before royalties, as determined by independent engineers for each country. Production and reserves of natural gas are converted to barrels of oil equivalent (boe) using an energy equivalent basis of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf = 1 boe). This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves as estimated by independent engineers and excludes the cost of unproved properties. The unproved properties are assessed periodically to ascertain whether impairment has occurred. If an unproved property is considered to be impaired, the amount associated with the impairment is added to costs subject to depletion. Certain costs relating to North Sea properties from which there has not been commercial production are not subject to depletion until commercial production commences.

Depreciation of other capital assets such as leasehold improvements, office furniture, computer and other equipment is provided based on rates ranging from 20 to 100% on a declining balance basis.

The Company applies a ceiling test as a test of impairment of its capitalized costs relating to its petroleum and natural gas properties. The cost centres are tested for recoverability by comparison to undiscounted estimated future net revenues (cash flows) from proved reserves using forecast prices, plus the unimpaired cost of unproved properties. When the carrying amount of a cost centre is not recoverable, the cost centre is written down to its estimated fair value.

(c) Goodwill

Goodwill, which represents the excess of purchase price over estimated fair value of net assets received is not amortized but is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is determined and compared to the book value of the reporting unit. If the fair value is less than the book value, the amount of the impairment is determined by deducting the fair value of the reporting unit's identifiable assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount.

(d) Asset retirement obligation

The Company recognizes the estimated fair value of an asset retirement obligation (ARO) in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability with a corresponding increase in the carrying amount of the related asset. ARO obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost result in an increase or decrease to the ARO. Actual costs incurred are charged against the ARO to the extent of the recorded liability.

(e) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax effects of the differences between the amounts reported in the financial statements and the respective tax basis, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period the change occurs.

Estimated future tax benefits related to losses and unclaimed costs for tax purposes are recognized as assets and in income, once it appears more likely than not they will ultimately be realized.

(f) Flow-through shares

The deductions for income tax purposes related to exploration and development activities funded by Canadian flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company incurred $5.0 million of flow-through related costs in 2004 (2003 – $5.1 million) and is not obligated to incur any additional amounts. Share capital has been decreased and future income tax increased to reflect the tax effect of flow-through share renouncements when the qualifying costs have been incurred. Any flow-through shares issued subsequent to January 2004 will be accounted for in accordance with EIC 146 whereby the tax effect of a flow-through share renunciation is to be recorded when renounced.

(g) Stock option plan

Bow Valley has a stock-based compensation plan that allows employees, consultants, and directors to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options are issued. Options granted under the plan vest over three years and expire five years after the grant date.

Stock-based compensation expense is deferred and recognized in earnings over the estimated period with a corresponding amount being shown as contributed surplus.

The fair value of options granted is estimated using the Black-Scholes option-pricing model. Factors used in this model include expected volatility, expected dividends, and risk-free interest rates. Consideration paid upon the exercise of the stock options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which result in reductions of compensation expense.

(h) Hedging

From time to time, the Company enters into risk management contracts for crude oil and natural gas prices on a portion of its production designed to reduce the adverse effect of lower prices and not for speculative purposes. The contracts are entered into with commodities trading institutions and may include costless collars, put options or fixed price contracts. The Company has elected not to designate any of its risk management activities as accounting hedges under Accounting Guideline 13 and accordingly, accounts for all derivatives using the mark-to-market method.

(i) Cash and cash equivalents

Cash and cash equivalents include interest-bearing short-term investments with maturity of three months or less when purchased.

(j) Joint ventures

Substantially all of the Company's exploration and development activities relating to oil and gas activities are conducted jointly with others. The accounts reflect the Company's proportionate interest in such activities.

(k) Foreign currency translation

The Company uses the temporal method for translating its foreign currency accounts and integrated foreign subsidiaries to Canadian dollars. Under this method, all monetary asset and liability accounts are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect when the assets were acquired or obligations incurred.

Revenues and expenses are translated to Canadian dollars at the monthly average exchange rate. Provisions for depletion, depreciation, and asset retirement obligation are translated at the same rate as the related balance sheet items. Foreign exchange gains and losses are included in earnings.

(l) Inventory

The Company records inventory amounts for oil that has been produced but not sold. The inventory is recorded at the lower of cost and net realizable value. Cost is determined on the first-in, first-out method and includes the related operating costs and depletion, depreciation and amortization.

(m) Comparative amounts

Certain comparative figures have been reclassified to conform with the current year presentation.

NOTE 2: PROPERTY, PLANT AND EQUIPMENT

December 31, 2004

	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties			
U.K.	$ 88,876,164	$ 53,334,772	$ 35,541,392
Canada	77,009,217	31,343,411	45,665,806
France	1,001,202	1,001,202	–
	166,886,583	85,679,385	81,207,198
Other	769,090	697,625	71,465
	$ 167,655,673	$ 86,377,010	$ 81,278,663

December 31, 2003

	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties			
U.K.	$ 80,932,151	$ 46,801,772	$ 34,130,379
Canada	55,090,915	20,196,411	34,894,504
France	1,001,202	1,001,202	–
	137,024,268	67,999,385	69,024,883
Other	699,488	621,485	78,003
	$ 137,723,756	$ 68,620,870	$ 69,102,886

At December 31, 2004, the net book value of U.K. oil and gas properties was $35.5 million (2003 – $34.1 million) of which $18.2 million (2003 – $14.9 million) consisted of unproved properties which were not depleted.

At December 31, 2004, the net book value of Canadian oil and gas properties was $45.7 million (2003 – $34.9 million) of which $6.4 million (2003 – $3.9 million) consisted of unproved properties which were not depleted.

In 2003, the Company relinquished the rights to its remaining exploration block in France and all the costs relating to France were written off.

During 2004, the Company capitalized $1.1 million (2003 – $0.9 million) of overhead relating to exploration activities. The Company did not capitalize any interest in 2004 (2003 – nil). Depletion and depreciation, amounted to $16.8 million for 2004 and $19.9 million in 2003.

Bow Valley performed a ceiling test calculation at December 31, 2004 to assess the recoverable amount of the property, plant and equipment of the U.K. cost centre. The price forecast at December 31, 2004 used in this evaluation was the independent reserve evaluator's as outlined in the table below and adjusted for quality and transportation differentials specific to Bow Valley.

Year	*Brent US$/bbl*	*Natural Gas Price US$/mmbtu*
2005	39.17	4.80
2006	33.00	4.02
2007	30.30	3.70
2008	29.20	3.57
2009	28.40	3.46
thereafter	+1.5%/year	+1.5%/year

Bow Valley performed a ceiling test calculation at December 31, 2004 to assess the recoverable amount of the property, plant and equipment of the Canadian cost centre. The price forecast at December 31, 2004 used in this evaluation was the independent reserve evaluator's, adjusted to incorporate a WTI oil price forecast equivalent to that used by our U.K. independent reserve evaluator, as outlined in the table below and adjusted for quality and transportation differentials specific to Bow Valley.

Year	*Exchange Rate*	*WTI US$/bbl*	*Edmonton Light C$/bbl*	*AECO-C Price C$/mmbtu*
2005	0.77	44.50	57.31	7.14
2006	0.77	37.23	47.87	6.69
2007	0.77	33.09	42.49	6.36
2008	0.77	32.43	41.64	6.10
2009	0.77	32.06	41.16	5.91
2010	0.77	32.54	41.78	5.71
thereafter	0.77	+1.5%/year	+1.5%/year	+1.5%/year

Future events, such as deteriorating operating performance or a reduction in commodity prices could result in material changes to the carrying amounts recognized in the Consolidated Financial Statements.

NOTE 3: GOODWILL

The Company is required annually to test Goodwill for impairment. At December 31, 2004, no impairment was indicated as the estimated fair value of the Canadian reporting unit exceeded the carrying value of the unit including goodwill.

NOTE 4: OTHER ASSETS

The Company's service contract with the National Iranian Oil Company to develop the Balal oilfield was ratified by the Supreme Economic Council of Iran at the end of January 1999. The Company was successful in securing Elf Petroleum Iran as a joint venture partner and the service contract was executed on April 4, 1999. The Company's total costs to date are approximately US$1.5 million. The Company's total remaining cost to be recovered of $0.6 million (2003 – $1.0 million) has been included in current other assets (2003 – $0.4 million current other assets and $0.6 million non-current other assets).

The Company began receiving cost recovery amounts from its interest in the Balal Project during 2003 and in 2004 recorded other income of $1.0 million (2003 – $1.0 million). Costs attributable to the project are being amortized over the expected revenues to be received during the next year.

Oil produced but not sold at December 31, 2004 relating to the U.K. operations of $2.3 million has been included in other assets at cost. The inventory value is comprised of $1.3 million of operating costs and $1.0 million of depletion.

During the year, the Company received $0.8 million for the redemption of the 12% convertible debenture that it received in 2003 as part of the sales proceeds for the sale of its onshore U.K. properties. The Company also received $0.2 million in interest for the debenture during the year.

NOTE 5: BANK INDEBTEDNESS

In the United Kingdom, the Company has a bank facility with an approved limit of US $3.5 million at December 31, 2004 at an interest rate of LIBOR plus 4.0%. The approved limit is subject to semi-annual review and the facility expires on June 30, 2006. At December 31, 2004, US $2.3 million (2003 – US $1.0 million) was drawn on this facility. The bank facility is secured by a floating charge on all property, assets and rights of Bow Valley Petroleum (UK) Limited.

In Canada, the Company has a Cdn $20.0 million revolving credit facility. At December 31, 2004, $7.3 million (2003 – $0.6 million) was drawn on this facility. The facility is repayable on demand, bears interest at the bank's prime rate plus 0.25% per annum, and is secured by a $50.0 million demand debenture conveying a fixed and floating charge over all properties in Canada. The facility is subject to annual review on April 30 of each year.

NOTE 6: ASSET RETIREMENT OBLIGATIONS

	2004	*2003*
Balance – beginning of the year	$ 8,094,765	$ 6,863,720
Increase in obligations during the year	61,720	757,813
Settlement of obligations during the year	(210,649)	(28,589)
Revisions to estimates	997,279	–
Accretion expense	620,384	501,821
Balance – end of the year	$ 9,563,499	$ 8,094,765

The total future asset retirement obligation was estimated by management based on the Company's net ownership interest in the wells and facilities, estimated costs to abandon the wells and facilities, reclamation of the land, and the estimated timing of the costs to be incurred in future periods. In Canada, the costs were estimated using the Energy Utilities Board guidelines for certain well and facility types and geographic areas. In the U.K., the obligation was estimated by the Company's independent engineers. At December 31, 2004, the estimated net present value of the asset retirement obligation was $9.6 million ($6.6 million for the Company's U.K. operations and $3.0 million for the Canadian operations). The Company expects the undiscounted obligations of $20.7 million to become payable over the next 38 years with the majority between 2015 and 2022. A discount rate of 7.5% and an inflation rate of 1.5% were used to calculate the present value of the asset retirement obligation.

NOTE 7: FUTURE INCOME TAXES

The provisions for income taxes in the consolidated statement of operations and deficit varies from the amount that would be computed by applying the expected tax rate to earnings before income taxes. The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

		2004	
	Canada	*U.K.*	*Total*
Tax Rate	38.87%	40.00%	
Expected income tax (recovery) expense	$ (279,619)	$ (1,150,413)	$ (1,430,032)
Increase (decrease) in income taxes resulting from:			
Federal resource allowance	(826,557)	–	(826,557)
Non-deductible Crown charges	1,276,760	–	1,276,760
Alberta Royalty Tax Credit	(158,473)	–	(158,473)
Change in rates	(680,420)	–	(680,420)
Foreign exchange adjustment	–	3,514	3,514
Change in valuation allowance	–	1,838,234	1,838,234
Attributed Canadian royalty income	(183,990)	–	(183,990)
Non-deductible – other	201,420	–	201,420
Other	256,866	(691,335)	(434,469)
Actual income tax expense (recovery)	$ (394,013)	$ –	$ (394,013)

		2003	
	Canada	U.K.	Total
Tax Rate	40.62%	40.00%	
Expected income tax (recovery) expense	$ (826,465)	$ 1,985,936	$ 1,159,471
Increase (decrease) in income taxes resulting from:			
Capital tax	70,382	–	70,382
Federal resource allowance	(1,163,054)	–	(1,163,054)
Non-deductible Crown charges	1,440,220	–	1,440,220
Alberta Royalty Tax Credit	(192,945)	–	(192,945)
Changes in rates	(310,810)	–	(310,810)
Foreign exchange adjustment	–	1,200,803	1,200,803
Reversal of valuation allowance	–	(2,118,376)	(2,118,376)
Attributed Canadian royalty income	(69,978)	–	(69,978)
Non-deductible – other	–	473,033	473,033
Other	133,367	(1,541,396)	(1,408,029)
Actual income tax expense (recovery)	$ (919,283)	$ –	$ (919,283)

Future Tax

	December 31,	
Canada	2004	2003
Net book value of property, plant and equipment in excess of tax basis	$ (6,320,850)	$ (5,144,564)
Asset retirement obligation	$ 994,346	$ 1,077,677
Non-capital loss carryforward	$ 2,238,205	$ 2,555,151
Share issue costs	$ 226,688	$ 365,260
Attributed Canadian royalty income	$ 429,902	$ 247,721
Future tax liability	$ (2,431,709)	$ (898,755)

	December 31,	
U.K.	2004	2003
Net book value of property, plant and equipment in excess of tax basis	$ (8,591,576)	$ (8,493,200)
Asset retirement obligation	$ 2,642,359	$ 1,992,757
Loss carryforward	$ 9,832,951	$ 8,545,943
Future tax asset	$ 3,883,734	$ 2,045,500
Valuation allowance	$ (3,883,734)	$ (2,045,500)
Future tax liability	$ –	$ –

The approximate amounts of tax pools available are as follows:

As at December 31	2004	2003
Canada	$ 38,134,030	$ 31,156,427
U.K.	39,591,759	34,399,531
Total	$ 77,725,789	$ 65,555,958

Tax Losses – Canada

At December 31, 2004, the Company had losses included in the above table available to offset future income for tax purposes of $5.9 million. The losses expire in the years as noted:

Year	*Amount*
2005	$ 583,647
2006	1,295,221
2007	1,315,100
2008	1,440,170
2009	1,315,371
Total	$ 5,949,509

Tax Losses – U.K.

The Company has provided a valuation allowance for the full amount of net future income tax assets in the U.K. As at December 31, 2004, the Company had approximately $24.6 million of losses (2003 – $21.4 million) available to offset future income for tax purposes. The losses have an indefinite life.

NOTE 8: STOCK BASED COMPENSATION

For 2004, $0.5 million (2003 – $0.1 million) was included in general and administrative expense for stock-based compensation and an equivalent amount is being credited to contributed surplus. This amount was determined using the Black-Scholes option-pricing model, using an average risk-free interest rate of 3.70%, expected life of four years, expected average volatility factor of 55.15%, and no dividends.

NOTE 9: SHARE CAPITAL

a) Authorized

Unlimited number of Class A, Class B and Class C Common Shares without nominal or par value.

Unlimited number of Class D, Class E and Class F Preferred Shares.

b) Issued

Class A common shares	*Number*	*Amount*
As at December 31, 2002	61,843,748	$ 78,960,714
Options exercised	166,265	203,039
Flow-through	2,500,000	5,000,000
Tax effect of flow-through shares and issue costs	–	(1,587,782)
Issue costs	–	(351,131)
As at December 31, 2003	64,510,013	$ 82,224,840
Options exercised	131,534	89,621
Tax effect of flow-through shares and issue costs	–	(1,940,953)
Issue costs	–	(6,553)
As at December 31, 2004	64,641,547	$ 80,366,955

c) Stock options

	Number of Options	Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2002	3,479,366	$0.38-$1.61	$1.40
Exercised	(166,265)	$0.55-$1.50	$1.22
Granted in 2003	865,000	$1.20-$2.41	$1.66
Cancelled	(745,000)	$1.45-$1.61	$1.49
Outstanding at December 31, 2003	3,433,101	$0.38-$2.41	$1.45
Exercised	(131,534)	$0.38-$1.18	$0.68
Granted in 2004	1,596,599	$1.31-$1.81	$1.60
Cancelled	(593,133)	$1.18-$1.50	$1.44
Outstanding at December 31, 2004	4,305,033	$0.50-$2.41	$1.53

The following tables summarize information about stock options exercisable and outstanding at December 31, 2004:

Options outstanding

Range of Exercise Price	Actual Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
$0.50-$0.99	122,800	$0.61	0.09
$1.00-$1.49	1,146,600	$1.39	3.72
$1.50-$1.99	2,990,633	$1.61	4.90
$2.00-$2.50	45,000	$2.41	3.12
	4,305,033	$1.53	3.22

Exercisable options

Range of Exercise Price	Actual Number Outstanding	Weighted Average Exercise Price
$0.50-$0.99	117,300	$0.64
$1.00-$1.49	590,100	$1.06
$1.50-$1.99	1,280,000	$1.68
$2.00-$2.50	15,000	$2.41
	2,002,400	$1.44

NOTE 10: PER SHARE INFORMATION

a) Basic per share information was calculated on the basis of the weighted average common shares outstanding during the year of 64,577,899 (2003 – 62,019,335).

b) Diluted per share information was calculated using 64,920,434 (2003 – 62,937,080). The amounts represent the sum of the weighted average shares outstanding plus an increase of 342,535 (2003 – 917,745) to account for the dilutive effects of the Company's outstanding stock options.

NOTE 11: GEOGRAPHIC SEGMENT INFORMATION

	December 31, 2004		
	Canada	*U.K.*	*Consolidated*
Operating revenue	$ 23,611,103	$ 13,808,235	$ 37,419,338
Transportation expenses	(677,412)	–	(677,412)
Interest and other income	5,552	1,317,447	1,322,999
Royalties, net of royalty tax credit	(5,066,585)	(22,240)	(5,088,825)
Operating expenses	(4,194,557)	(8,858,367)	(13,052,924)
General and administrative expense	(2,614,725)	(1,887,004)	(4,501,729)
Interest expense	(312,127)	(704,812)	(1,016,939)
Foreign exchange (loss) gain	(734)	(132,690)	(133,424)
Risk management – unrealized	–	(98,564)	(98,564)
Risk management – realized	–	17,284	17,284
Amortization of other assets	–	(366,681)	(366,681)
Depletion, depreciation and accretion expense	(11,469,883)	(5,948,642)	(17,418,525)
Taxes – current	(13,986)	–	(13,986)
– future tax recovery	407,999	–	407,999
Net income (loss) for the year	$ (325,355)	$ (2,876,034)	$ (3,201,389)
Goodwill	$ 8,512,450	$ –	$ 8,512,450
Identifiable assets	$ 59,475,744	$ 44,782,228	$ 104,257,972
Total capital additions	$ 22,179,269	$ 6,693,651	$ 28,872,920

	December 31, 2003		
	Canada	*U.K.*	*Consolidated*
Operating revenue	$ 21,755,243	$ 20,818,722	$ 42,573,965
Transportation expenses	(202,982)	–	(202,982)
Interest and other income	13,646	1,819,809	1,833,455
Royalties, net of royalty tax credit	(5,214,736)	(47,110)	(5,261,846)
Operating expenses	(3,491,043)	(8,217,784)	(11,708,827)
General and administrative expense	(1,875,252)	(657,610)	(2,532,862)
Foreign exchange (loss) gain	(68,126)	293,465	225,339
Risk management – realized	(494,982)	(122,670)	(617,652)
Interest expense	(122,772)	(538,098)	(660,870)
Amortization of other assets	–	(365,346)	(365,346)
Depletion, depreciation and accretion expense	(12,333,622)	(8,018,538)	(20,352,160)
Taxes – current	(70,382)	–	(70,382)
– future tax recovery	989,665	–	989,665
Net income (loss) for the year	$ (1,115,343)	$ 4,964,840	$ 3,849,497
Goodwill	$ 8,512,450	$ –	$ 8,512,450
Identifiable assets	$ 48,513,695	$ 41,949,627	$ 90,463,322
Total capital additions	$ 17,650,852	$ 10,331,682	$ 27,982,534

NOTE 12: RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

During the year, the Company entered into two fixed price contracts for the sale of 50,000 barrels of oil per contract at a price of US$40.85/bbl and US$38.90/bbl. The Company has elected to account for financial instruments under the mark-to-market method and accordingly has recorded an unrealized loss of $98,564 and a realized gain of $17,284 from hedging during 2004 (2003 – $617,652 realized loss). At December 31, 2004, there was one fixed price contract outstanding for the sale of 50,000 barrels of oil at US$38.90 for May 2005.

The Company's financial instruments are comprised of cash, accounts receivable, bank indebtedness, accounts payable, and a crude oil fixed price contract. There are no significant differences between the carrying values of these items and the estimated market values due to their short-term nature.

The Company is exposed to credit risk on its accounts receivable from its customers. The Company believes there is no significant concentration of credit risk.

The Company is exposed to interest rate risk to the extent of the floating rate related to bank indebtedness.

NOTE 13: COMMITMENTS

As at December 31, 2004, the Company was committed to long-term leases for offices of:

Year	*Amount*
2005	215,636
2006	215,636
2007	143,758
2008	–
2009	–
Total	$ 575,030

The Company has contracted with a third party for the use of a floating production offloading and storage vessel. The Company's commitment is £14,000 per day. The contract runs to September, 2005.

CORPORATE GOVERNANCE

Bow Valley strives to exhibit good corporate governance in all areas of its operations.

The Company has always made an effort to create a corporate culture that represents integrity, honesty and respect. The Company works hard to be a good corporate citizen.

The mandate of the Board of Directors is to supervise the management of the Company and to act in the best interests of the Company and its shareholders. The Board endeavors to act in accordance with all relevant laws, by-laws and regulations. The Board approves all significant decisions that materially affect the Company before they are implemented.

The Board is currently comprised of five members. All directors are unrelated directors except Robert Moffat, the President and Chief Executive Officer (CEO) of the Company. The Chairman of the Board is an unrelated director. None of the other directors work in the day-to-day operations of the Company, are party to any material contracts of the Company or receive any fees from the Company other than as directors. The Board can meet independently of management if required.

The Board is actively involved in the Company's strategic planning process and discusses and reviews all materials relating to the strategic plan with management. At least one Board meeting each year is dedicated to the strategic plan, which takes into account the risks and opportunities of the business. Management must seek the Board's approval for any transaction that would have a significant effect on the strategic plan.

The Board has appointed three committees, all of which are comprised of unrelated directors:

THE AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the Company's financial reporting procedures, the scope and extent of the annual audit and the performance of external auditors. The Audit Committee reviews and recommends for approval the annual financial statements and related MD&A and Annual Information Form of the Company. The Audit Committee has a direct communication channel with the external auditors and meets with them independently of management. The Board also reviews interim financial statements and related MD&A prior to release. The Audit Committee meets at least quarterly.

The Board, through the Audit Committee, considers the effectiveness of the Company's internal control systems and management information systems. The Board consults with management to attempt to ensure the integrity of these systems. The Board, in consultation with management, assumes responsibility for identifying the main risks that affect the business and endeavours to ensure that the right systems are in place to manage these risks.

THE RESERVES COMMITTEE

The Board has also established a Reserves Committee, which is responsible for engaging the independent engineers, endeavouring to ensure the processes for providing information to the independent engineers is adequate, and considering the independent engineers' reserves report. Management has included the Reserves Committee in discussions between the Company and the independent engineers with respect to the reserves reports. The Reserves Committee also has direct access to the independent engineers.

THE COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

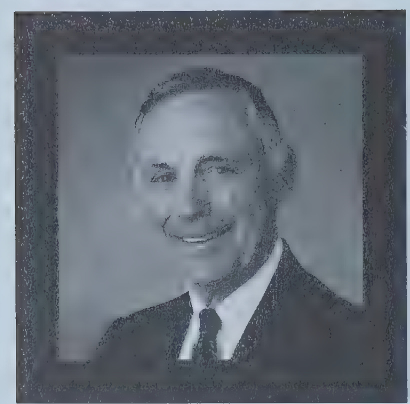
The Compensation and Corporate Governance Committee is responsible for, among other things, developing the Company's approach to governance. This committee also has the responsibility for considering the effectiveness of the Board, its committees and the individual directors, including the composition and size of the Board and its committees and compensation of the Board members. The Board feels the current size of the Board is adequate for the size of the Company. The compensation of directors is reviewed periodically and takes into account the responsibilities and risks, especially with respect to comparable publicly traded companies.

The Board is responsible for choosing the President and CEO, approving the hiring of senior management and monitoring their performance. The Board approves the President and CEO's compensation. The Board and CEO have not developed position descriptions for the Board and CEO. The Board expects the CEO, together with management, to manage the business of the Company in a manner that enhances value and is consistent with the highest level of integrity. Responsibilities that are not delegated to senior management or a Board committee remain the responsibility of the full Board. The Board annually approves the key business and financial objectives of the Company as presented by management. These annual performance targets, in addition to long-term objectives of profitable growth and increasing value, define the mandate of the CEO and the management team.

The Board approves all of the Company's major communications, including annual and quarterly reports, financing documents and material press releases. The Company communicates with its stakeholders through a number of channels including press releases, management presentations and the Company web site. Shareholders can provide feedback in a number of ways, including email or telephone.

BOARD OF DIRECTORS

DARYL K. SEAMAN
Chairman of the Board



Mr. Seaman is Chairman of the Board and a founder of Bow Valley Energy Ltd. From 1992 to present, he has been Chairman and President of Dox Investments Inc., a private holding company. From 1949 through 1992, he was Chairman, Chief Executive Officer and Director of Bow Valley Industries Ltd. and its predecessor companies, which he co-founded. Other directorships include Far West Mining Ltd. and Western Lakota Energy Services Ltd. Mr. Seaman is an Officer of the Order of Canada.

ROBERT G. MOFFAT
President, Chief Executive Officer, Director

Mr. Moffat, P. Geol., is President, Chief Executive Officer and a Director of Bow Valley Energy Ltd. Mr. Moffat graduated from Queen's University, Kingston, Ontario, Canada in 1977. From 1995 to 2001, he was President, Chief Executive Officer and Director of Courage Energy Inc. From 1992 through 1995, he was President of Springsyde Resources Ltd., a company he founded and which later became Courage Energy Inc. through an amalgamation and name change in 1995. Prior thereto, he was Vice President and Director of Highridge Exploration Ltd. Mr. Moffat has been instrumental in directing corporate growth through oil and natural gas exploration in Canada, the United States and internationally.

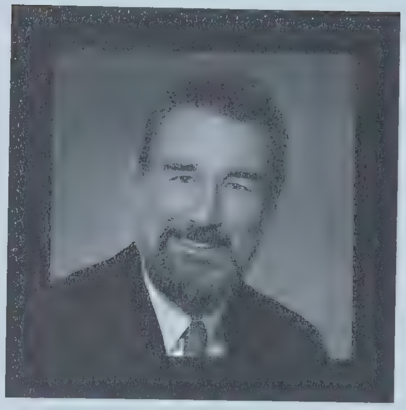
HENRY R. LAWRIE
Director

Mr. Lawrie joined Price Waterhouse in Calgary, was admitted to partnership in 1971, and served as a partner in Toronto and Midland, Texas. He was Co-chairman, Price Waterhouse Canada Oil and Gas Specialty; Managing Partner, Price Waterhouse, Calgary; Representative, Price Waterhouse World Council of Partners; Representative, Price Waterhouse World Firm Advisory Group; and was twice elected to the Price Waterhouse Canada Policy Board. He retired in June 1997. In addition, Mr. Lawrie was Chief Accountant of the Alberta Securities Commission from 1997 through 2001, Chair of the Oil and Gas Securities Taskforce and Advisor to the Commission.

KENNETH R. STILES
Director

Presently, Mr. Stiles is a Director of Echo Glen Consulting Ltd. and several other private companies. From 1992 through 2001, he was Executive Vice President and Secretary of Dox Investments Inc., a private holding company. From 1994 through 2001, he was a Director of Courage Energy Inc., a public oil and gas company, and from 2000 to 2001, served as Chairman of that company. From 1996 through 1999, Mr. Stiles was a Director of We X.L. Holdings Corporation, a public energy management company, as well as a Director of Highridge Exploration Ltd., a public oil and gas company.

GEORGE Y. TOOLEY
Director



Currently, Mr. Tooley is an Officer and Director of Fairstar Explorations Inc., a TSX listed junior mining company. As one of the principals of the Petrovest Group, Mr. Tooley has been actively involved in the financing and administration of mineral and petroleum projects for the last 14 years. From 1992 through 2001, he was a Director of Courage Energy Inc., a public oil and gas company.

FIVE-YEAR SUMMARY

	2004	2003	2002	2001	2000
FINANCIAL *($000s except per share amounts)*			*(restated)*		
Revenue	**37,419**	42,574	31,605	24,510	11,291
Funds Flow	**14,471**	23,633	13,613	16,645	4,997
Basic per share ($/share)	**0.23**	0.38	0.27	0.42	0.15
Diluted per share ($/share)	**0.23**	0.38	0.27	0.40	0.15
Earnings (loss)	**(3,201)**	3,849	4,603	(15,933)	2,688
Basic per share ($/share)	**(0.05)**	0.06	0.09	(0.40)	0.08
Diluted per share ($/share)	**(0.05)**	0.06	0.09	(0.40)	0.08
Capital expenditures	**28,873**	27,983	51,021	12,619	13,881
Total assets	**104,258**	90,463	85,144	38,293	47,988
Working capital (deficit)	**(16,022)**	(2,829)	(4,850)	9,651	2,138
Long-term debt	**–**	–	–	(500)	(8,997)
Total net working capital (deficit)	**(16,022)**	(2,829)	(4,850)	9,151	(6,859)
Shares (000s)					
Basic outstanding at year-end	**64,642**	64,510	61,844	45,450	38,269
Weighted average	**64,578**	62,019	51,040	39,787	34,050

	2004	*2003*	*2002*	*2001*	*2000*
OPERATING					
Sales volumes					
Crude oil and NGL (bbl/d)					
U.K.	497	1,002	1,358	1,472	667
Canada	200	326	101	–	–
Total	697	1,328	1,459	1,472	667
Natural gas (mmcf/d)					
U.K.	3.3	3.9	2.0	2.7	–
Canada	8.3	7.2	3.7	–	–
Total	11.6	11.1	5.7	2.7	–
Barrels of oil equivalent (boe/d)					
U.K.	1,053	1,652	1,698	1,927	667
Canada	1,590	1,525	711	–	–
Total	2,643	3,177	2,409	1,927	667
Reserves					
Crude oil and NGL (mstb)					
Proven					
U.K.	550	834	1,980	2,180	3,812
Canada	315	189	250	–	–
Probable					
U.K.	10,850	11,810	12,600	10,990	12,885
Canada	182	64	70	–	–
Natural gas (bcf)					
Proven					
U.K.	6.0	7.3	9.3	9.9	4.4
Canada	13.2	8.1	9.7	–	–
Probable					
U.K.	12.4	14.4	20.3	16.1	19.2
Canada	6.5	2.9	2.5	–	–
Undeveloped land (net acres – 000s)					
U.K.	42	41	104	75	80
Canada	51	45	38	10	–
France	–	–	283	486	485
Total	93	86	425	571	565

HEALTH, SAFETY AND ENVIRONMENT

BOW VALLEY'S GOAL is to implement and maintain high standards of health, safety and environmental performance in our operations. During the past year, we undertook active operations both in western Canada and the U.K. offshore. Our health, safety and environmental programs and policies are relatively new and continue to evolve, and our employees are committed to their implementation. The Company operates in a manner designed to ensure the health and safety of its employees, contractors and the public, and minimize adverse effects on the environment. We are committed to:

- providing practical health, safety and environmental policies and programs for all employees and contractors;
- preparing emergency response procedures that allow personnel to respond promptly and effectively to emergencies;
- establishing training programs designed to ensure employees receive appropriate training relative to their job function;
- considering good safety performance in the process of selecting contractors, suppliers and other services;
- establishing monitoring procedures designed to ensure our operations are conducted in compliance with applicable laws and Company standards; and
- establishing reporting and investigation procedures for all injuries, serious incidents and environmental concerns.

Bow Valley assumed the role of active operator during 2002 with the commencement of our drilling program in western Canada and the U.K. and the acquisition of Boundary Creek Resources Ltd. We set targets of no accidents and minimal effect to the environment, and these goals were achieved over the course of the year. The Company joined the Canadian Association of Petroleum Producers (CAPP) Environment, Health and Safety Stewardship initiative during 2002. As such, we are committed to the continuous improvement of our environment, health and safety performance. We are continuing to implement and plan initiatives to enhance our performance, including third-party rig and field-facility inspections; and safety-training assessments and upgrading programs for all field employees and contractors.

The broadening scope of our operations has necessitated a greater focus on the effect of our operations on the environment. We recognize the diversity of opinion that now exists among stakeholders, in particular those we connect with in rural areas, regarding the environmental effect of oil and natural gas activities. Bow Valley is committed to responding to stakeholder concerns. While we may not always share the same opinion, we recognize that positive, two-way communications and a willingness to consider project design alternatives can play an important role in providing an effective response and in reducing our effect on the environment.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Daryl K. Seaman, O.C. [1]
Chairman of the Board
Calgary, Alberta

Robert G. Moffat
President, Chief Executive Officer and Director
Calgary, Alberta

Henry R. Lawrie [1][2][3]
Director
Calgary, Alberta

Kenneth R. Stiles [2][3]
Director
Calgary, Alberta

George Y. Tooley [1][2][3]
Director
Pointe-Claire, Quebec

(1) Member of the Compensation and Corporate Governance Committee

(2) Member of the Audit Committee

(3) Member of the Reserves Committee

MANAGEMENT

Robert G. Moffat
President and Chief Executive Officer

John W. Essex
Vice President, Operations

Nick J. Fairbrother
Director, International Business Development

David A. Fleming
Vice President, International

Matthew L. Janisch
Vice President, Finance and Chief Financial Officer

Tom J. Ruissen
Vice President, Exploration

CORPORATE SECRETARY

Robert J. (Bob) Engbloom

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BOARD OF DIRECTORS (U.K.)

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David A. Fleming

Robert G. Moffat

Walter R. Roberts

AUDITORS

PricewaterhouseCoopers LLP

BANKERS

Bank of Scotland

National Bank of Canada

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company

SOLICITORS

Macleod Dixon LLP

Dundas & Wilson

INDEPENDENT ENGINEERS

APA Petroleum Engineering Inc.

Ryder Scott Company

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Trading Symbol: BVX

ANNUAL INFORMATION FORM

The Annual Information Form can be obtained on request from the Company.

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